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TO AMEND SECTION 3620 OF THE REVISED STATUTES WITH RESPECT TO PAYROLL DEDUCTIONS FOR FEDERAL EMPLOYEES

ORIGINAL COMPLETED

HEARING

BEFORE THE

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS SUPERVISION, REGULATION AND INSURANCE

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

H.R. 4703

A BILL TO AMEND SECTION 3620 OF THE REVISED STATUTES WITH RESPECT TO PAYROLL DEDUCTIONS FOR FEDERAL EMPLOYEES

MARCH 11, 1982

Serial No. 97-60

Printed for the use of the
Committee on Banking, Finance and Urban Affairs

U.S. GOVERNMENT PRINTING OFFICE
93-035 O WASHINGTON : 1982

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CONTENTS

Page

Text of H.R. 4703 4

STATEMENTS

Barr, James C., executive vice president, Credit Union National Association (CUNA) 20
Hoyer, Hon. Steny H., a Representative in Congress from the State of Maryland 10
Myers, Col. George E., USA (retired), executive director, Defense Credit Union Council, and chairman, Coalition Committee of Financial Institution Trade Associations 14
Nestlerode, Mal, executive vice president, National Association of Federal Credit Unions 44
Oakar, Hon. Mary Rose, chairwoman, Subcommittee on Compensation and Employee Benefits, Committee on Post Office and Civil Service 5
Smith, Patrick F., legislative liaison, National Treasury Employees Union 54

ADDITIONAL INFORMATION SUBMITTED FOR THE RECORD

Association of Military Banks of America, statement inserted in record by Col. George E. Myers, U.S. Army (retired) 15
Barr, James C., prepared statement 22
Devine, Hon. Donald J., Director, Office of Personnel Management, letter stating that the issue is not within the scope of OPM 70
Dwyer, Vernon, president, Defense Credit Union Council, statement 71
Hoyer, Hon. Steny H., prepared statement 11
Myers, Col. George E., USA (retired), prepared statement 17
National Savings and Loan League, letter dated April 19, 1982, from Jim Cousins, senior vice president for government affairs 80
Nestlerode, Mal, prepared statement 45
Oakar, Hon. Mary Rose:
  Prepared statement 7
  Remarks from the Congressional Record of October 6, 1981, entitled "Federal Government Should Absorb Costs Incurred in Savings Allotment Programs" 1
Regan, Hon. Donald T., Secretary of the Treasury:
  Letters to Chairman St Germain re H.R. 4703:
    March 10, 1982, from W. Dennis Thomas, Assistant Secretary, Legislative Affairs with attached statement by William Douglas before the Subcommittee on Compensation and Employee Benefits and an excerpt from the Federal Register of March 8, 1982 60
    June 7, 1982, from R.T. McNamar, Acting Secretary, postponing the scheduled allotment fee increase pending the results of a study 82
St Germain, Chairman Fernand J.:
  Letters to:
    Hon. Donald J. Devine, Director, Office of Personnel Management, dated March 8, 1982, requesting testimony on the provisions of H.R. 4703 69
    Hon. Donald T. Regan, Secretary of the Treasury:
      March 4, 1982, requesting testimony from the Treasury Department on provisions of H.R. 4703 59

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St Germain, Chairman Fernand J.—Continued
Letters to—Continued
Hon. Donald T. Regan, Secretary of the Treasury—Continued
May 19, 1983, urging the Treasury Department to defer implementation of the scheduled allotment fee increase in order to allow congressional action ..... Page 81
Smith, Patrick F., prepared statement 56
United States League of Savings Associations, letter dated March 30, 1982, from Arthur B. Edgeworth, director, Washington office 78

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TO AMEND SECTION 3620 OF THE REVISED STATUTES WITH RESPECT TO PAYROLL DEDUCTIONS FOR FEDERAL EMPLOYEES

THURSDAY, MARCH 11, 1982

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:40 a.m., in room 2128, Rayburn House Office Building, Hon. Fernand J. St Germain (chairman of the subcommittee) presiding.

Present: Representatives St Germain, Oakar, Patman, Hansen, and Wortley.

Chairman ST GERMAIN. The subcommittee will come to order.

Today we begin consideration of H.R. 4703, a bill introduced by our distinguished colleague and committee member, Hon. Mary Rose Oakar. As introduced, the bill would require the Federal Government to provide payroll deduction allotments under the savings allotment program at no cost to the Federal employee or to the recipient financial institution. At this point I would like to insert in the record Ms. Oakar's remarks in the Congressional Record upon introduction of the bill, a copy of which has been provided to each subcommittee member. Without objection, so ordered.

[The remarks of Congresswoman Mary Rose Oakar of the Congressional Record of October 6, 1981, follow:]

[From the Congressional Record, Oct. 6, 1981]

FEDERAL GOVERNMENT SHOULD ABSORB COSTS INCURRED IN SAVINGS ALLOTMENT PROGRAM

Ms. OAKAR. Mr. Speaker, today I am introducing legislation which will require the Federal Government to provide payroll deduction allotments under the savings allotment program at no cost to the Federal employee or to the recipient financial institution.

Payroll deducations have proved to be an effective and efficient means of encouraging savings for all citizens. It is a sure method by which they can contribute to an overall improvement in our economy, help stall inflation, and play a positive role in bringing down the exhorbitant rates of interest we suffer from today. Congress should do all it possibly can to encourage thrift and savings. It is for this reason that my bill is extremely timely and on target.

Mr. Speaker, service charges for the processing of allotment checks are imposed only on savings allotments made under 31 U.S.C. 492(b) which requires that Federal agencies be reimbursed for the additional administrative costs incurred in processing savings allotments for Federal civilian employees by their recipient financial institutions. In other words, under current law, the Federal Government will absorb the administrative cost of sending one check to an employee's designated financial organization—tha. is, bank, savings bank, savings and loan association, or credit

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union—but the appropriate Federal agency must be reimbursed by the designated financial organization for any administrative costs incurred in processing additional savings allotment checks, which under current law is limited to two. My bill would simply delete the requirement that admnistrative costs be reimbursed by the financial organization, and it would require the Federal Government to absorb all administrative costs incurred in the savings allotment program. There is no doubt that the benefits to our economy as a whole as provided by this legislation will far outweigh any additional costs to the Government—which are minimal. The revenues received by the Government for savings accounts allotments averaged $1.67 million per year for fiscal year 1979 and fiscal year 1980. Moreover, it is a fact that most of the private sector now provides such services for their employees at no cost to the employees or to the financial institutions involved.

Under current law, only active and retired military personnel and Department of Defense civilians working overseas are now authorized to make allotments to financial institutions at no cost to them or to their recipient institutions.

Allotments for civilian employees of the federal Government were permitted in 1961 (5 U.S.C. 5525). These allotments were limited to labor dues, charitable contributions, and taxes—at no charge to the employee. The program was expanded in 1965 by allowing Federal employees to have allotments sent to financial institutions—but it did not require the Government to impose fees for these services. It was not until 1968 that charges for sending allotments to designated institutions were established by the Department of the Treasury. Under 31 U.S.C. 492(b) as amended by Public Law 90-365, the Treasury Department was given the authority to establish charges for two additional allotments sent to financial institutions, excluding an allotment for an employee's regular paycheck—which has been and continues to be sent to at no cost to the employee or the designated institution, since it is considered to be an entitlement to the employee. Incidentally, charges were imposed on extra allotments because it was feared that additional allotments might constitute an excessive expense for the Federal Government. However as late as May of last year, the Office of Personnel Management concluded otherwise and proposed a rule which would substantially liberalize the use of payroll allotment programs.

Despite the OPM's findings, the Department of Treasury, on May 22, 1981, published a notice of proposed rulemaking to increase the service charge for allotments of pay to savings accounts of Federal civilian employees. Under the proposal, service charges would increase from 6 cents to 12 cents for each individual payroll deduction and from 12 cents to 27 cents for each check sent to a financial organization.

Although the Treasury Department admitted that the savings allotment program had come far in promoting thrift among Federal employees, that participation by employees and financial organizations led to a steady growth in the program—which would not have been possible without the cooperation and interest that has been demonstrated by financial institutions, and that the proposed increase may impose an additional burden on financial institutions—and therefore, ultimately on the Federal employee; it, nonetheless, concluded that the law requires the recovery of processing costs. Mr. Speaker, how ironic it is that we in the Congress, on the one hand, enact legislation such as the all savers, individual retirement accounts, and other provisions contained in the recently passed Economic Recovery Tax Act of 1981, to encourage savings, and yet, on the other hand, we impose an impediment on our loyal Federal employees who want to save by requiring the Federal Government to charge the employee or the designated financial institution the cost of processing the savings allotment. It simply does not make any sense and my bill corrects this inequity.

Mr. Speaker, it is also a fact that agency costs for administering the allotment program have declined since charges were first imposed in 1968 through the development of more sophisticated electronic delivery systems; it is also a fact, as noted earlier, that most private sector businesses provide allotment benefits cost free to their employees. It is time for the Federal Government to follow the lead of the private sector and provide cost-free allotment benefits to all Federal employees, the cost of which is minimal to the Federal Treasury and at the same time a painless way to fight inflation.

Mr. Speaker, I am proud to announce that my bill has the full support of the Credit Union National Association (CUNA), the Defense Credit Union Council (DCUC), the National Association of Federal Credit Unions (NAFCU), and other financial organizations interested in thrift and savings for the Federal employee and for all Americans.

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Mr. ST GERMAIN. The Subcommittee on Compensation and Employee Benefits of the Post Office and Civil Service Committee, the subcommittee which Ms. Oakar so ably chairs, and to which H.R. 4703 was jointly referred, held a hearing on the merits of this legislation on February 4, 1982. Yesterday the full Post Office and Civil Service Committee favorably reported out H.R. 4703 by voice vote with an amendment.

H.R. 4703 directly impacts on a rule adopted on Monday, March 8, 1982, by the Department of Treasury, with an effective date of May 31, 1982, which would double the service charge for allotments of pay to savings accounts of Federal civilian employees who are employed within the United States. As the May 31 effective date nears, the subcommittee has an opportunity to consider the impact on Federal employee morale and the impact on financial institutions, many of which are experiencing difficulty, of the proposed Treasury Department rule.

[The text of H.R. 4703 follows:]

97TH CONGRESS
1ST SESSION

H. R. 4703

To amend section 3620 of the Revised Statutes with respect to payroll deductions for Federal employees.

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 6, 1981

Ms. OAKAR introduced the following bill; which was referred jointly to the Committees on Banking, Finance and Urban Affairs and Post Office and Civil Service

---

A BILL

To amend section 3620 of the Revised Statutes with respect to payroll deductions for Federal employees.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 3620(b)(1) of the Revised Statutes (31 U.S.C. 492(b)(1)) is amended—

(1) by striking out "one, two, or three"; and

(2) by striking out ": *Provided,*" and all that follows thereafter and inserting in lieu thereof ". The agency shall make this service available without cost to the employee or financial organization involved.".

Chairman ST GERMAIN. We commend our colleague, the gentlelady from Ohio, for her outstanding leadership and diligence in bringing this matter to our attention. We shall hear first from Congresswoman Oakar followed by our colleague from Maryland, the Honorable Steny H. Hoyer, whose supportive efforts we also commend. He serves as a valuable member of the full Committee on Banking, Finance and Urban Affairs and also serves on the Subcommittee on Compensation and Employee Benefits of the Committee on Post Office and Civil Service.

I might add that Congressman Hoyer probably represents more civilian employees of the Federal Government than any other Member, and at a time when Federal employees need all the friends they can get he has already proved his effectiveness in championing the cause of insuring that the Federal Government remain a model employer.

At this time, it is indeed with great pleasure that we welcome Ms. Oakar and Mr. Hoyer, and we would first like to hear from the able chairwoman of the Subcommittee on Compensaiton and Employee Benefits who has brought this legislation to us. We will put your entire statement in the record, and you may proceed.

STATEMENT OF HON. MARY ROSE OAKAR, CHAIRWOMEN, SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS, COMMITTEE ON POST OFFICE AND CIVIL SERVICE

Ms. OAKAR. Thank you, Mr. Chairman. I want to thank you very much for holding a hearing on H.R. 4703 so promptly in this session of the 97th Congress. You, too, have been a great champion of the consumer, and you have done so much work in encouraging people to save, and I think it is appropriate that my good friend Steny Hoyer and I put on our other hats today and testify before our beloved Banking Committee. I am grateful to you, and I am confident that my appreciation is echoed by the thousands of Federal civilian employees who will benefit by the enactment of this legislation.

Very briefly, Mr. Chairman, H.R. 4703 would amend section 3620 of the revised statutes regarding payroll deductions for Federal employees in one respect. It would require the Federal Government to pay for the administrative costs incurred in processing Federal civilian employees' allotment checks under the Federal employee savings allotment program.

Mr. Chairman, rather than plunge into a discourse on the legislative history of the savings allotment program, a task which I would gladly assign to the expert witnesses who follow me, suffice it to say that our bill would bring Federal civilian employees in line with the military civilian employees serving overseas and most private sector employees, where neither they nor their designated financial institution is charged a service fee for payroll deduction allotments, so we feel this is another discriminatory act toward Federal civilian employees who work in this country.

Mr. Chairman, as you know, the Government's payroll allotment program has been an effective and efficient means of encouraging savings and promoting thrift. This is sound public policy. However, just this week the Department of Treasury published a final regu-

93-035 O—82——2

lation which would double the allotment user fee, which would put additional financial strain on some institutions requiring them to make a fundamental business decision, that is, whether to promote the savings allotment program or to drop this service or to pass along this increased cost to the Federal employees.

In all honesty, it is incongruous to me that on one hand we in Government adopt a public policy that encourages savings and on the other we penalize a select group, the Federal civilian employees, or his or her designated financial institution, for actively participating in a program which promotes thrift, helps bring down inflation, and otherwise benefits our general economy as a whole.

I am sure you agree with me that the benefits accruing to the employee and the Government resulting from enactment of H.R. 4703 far outweigh the loss of revenue to the Treasury, which amounted to approximately $2 million in fiscal year 1982.

Mr. Chairman, when I introduced H.R. 4703, I stated the following, which I believe bears repeating.

> Mr. Speaker, how ironic it is that we in Congress on the one hand enact legislation such as the all savers individual retirement accounts and other provisions contained in the recent passed Economic Recovery Tax Act of 1981 to encourage savings, and yet on the other we impose an impediment on our loyal Federal employees who want to save by requiring the Federal Government to charge the employee or the designated financial institution the cost of processing the saving allotment. It simply does not make any sense, and my bill corrects this inequity.

Mr. Chairman, I want to thank you for giving me the opportunity to testify. In light of the Treasury regulation which becomes effective on May 31, 1982, and the favorable action taken yesterday by the Post Office and Civil Service Committee, I respectfully urge the committee to act favorably on our legislation.

Thank you very much, Mr. Chairman. I would be happy to answer any questions.

[The prepared statement of Ms. Oakar follows.]

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STATEMENT OF

THE HONORABLE MARY ROSE OAKAR

ON H.R. 4703

BEFORE THE

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS

SUPERVISION, REGULATION AND INSURANCE

COMMITTEE ON BANKING, FINANCING AND URBAN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

WASHINGTON, D.C.

MARCH 11, 1982

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Mr. Chairman, thank you for holding a hearing on H.R. 4703 so promptly in this session of the 97th Congress. I am grateful to you and I am confident that my appreciation is echoed by the thousands of federal civilian employees who will benefit by the enactment of this legislation.

Briefly, H.R. 4703 would amend Section 3620 of the revised statutes regarding payroll deductions for federal employees in one respect; it would require the Federal government to pay for the administrative costs incurred in processing Federal civilian employees allotment checks under the Federal employee savings allotment program.

Mr. Chairman, rather than plunge into a discourse on the legislative history of the savings allotment program--a task which I would gladly assign to the expert witnesses who follow me, suffice it to say that my bill would bring Federal civilian employees in line with the military, civilian employees serving overseas, and most private sector employees, where neither they nor their designated financial institution is charged a service fee for payroll deduction allotments.

Mr. Chairman, as you know, the Government's payroll allotment program has been an effective and efficient means of encouraging savings and promoting thrift. This is sound public policy. However, just this week, the Department of Treasury published a final regulation which

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would double the allotment user fee , which would put an additional financial strain on some institutions requiring them to make a fundamental business decision; that is, whether to promote the savings allotment program or to drop this service or to pass along this increased cost to Federal employees.

In all honesty, it is incongruous to me that on the one hand we in government adopt a public policy that encourages saving and on the other, we penalize a select group, the Federal civilian employees, or his or her designed financial institution for actively participating in a program which promotes thrift, helps bring down inflation, and otherwise benefits our general economy as a whole. I am sure you agree with me that the benefits accruing to the employee and the government resulting from enactment of H.R. 4703, far outweigh the loss of revenue to the Treasury, which amounted to approximately $2 million in Fiscal Year 1982.

Mr. Chairman, when I introduced H.R. 4703 I stated the following which I believe bears repeating:

> "Mr. Speaker, how ironic it is that we in the Congress, on the one hand, enact legislations such as the All Savers, Individual Retirement Accounts, and other provisions contained in the recently passed Economic Recovery

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Tax Act of 1981, to encourage savings, and yet, on the other hand, we impose an inpediment on our loyal Federal employees who want to save by requiring the Federal Government to charge the employee or the designated financial institution the cost of processing the savings allotment. It simply does not make any sense and my bill corrects this inequity."

Thank you Mr. Chairman for giving me the opportunity to testify on H.R. 4703. In light of the Treasury regulation which becomes effective on May 31, 1982, and the favorable action taken yesterday by the Post Office and Civil Service Committee, I respectfully urge the Committee to act favorably on my legislation.

Chairman ST GERMAIN. Thank you, Ms. Oakar.
Mr. Hoyer?

STATEMENT OF HON. STENY H. HOYER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Mr. HOYER. Mr. Chairman, I want to join you and the chairwomen of my Subcommittee on Post Office and Civil Service Committee, Ms. Oakar, in support of H.R. 4703, and would ask unanimous consent that my statement be included in the record at this point in its entirety.

Chairman ST GERMAIN. Without objection.

Mr. HOYER. I will not take the time to fully expound on my statement, but would simply join the comments of the distinguished Chairwoman of the Subcommittee on Compensation and Employees Benefits. I think that her observations that this procedure is going in the opposite direction of that which we want to foster on the American public in terms of savings is extremely appropriate. It certainly was one of the reasons that the Post Office and Civil Service Committee moved as quickly on Ms. Oakar's legislation as it did, and I am hopeful, Mr. Chairman, and confident that under your leadership the full committee here will move equally rapidly on this legislation, which I think is very badly needed. I know that they will very much appreciate your actions and leadership on this issue, and I thank you for this opportunity to appear.

[Mr. Hoyer's prepared statement follows:]

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STATEMENT OF
THE HONORABLE STENY H. HOYER

MR. CHAIRMAN, I ESPECIALLY APPRECIATE THE OPPORTUNITY TO TESTIFY THIS MORNING ON BEHALF OF H.R. 4703. AS A MEMBER OF BOTH THE COMMITTEES TO WHICH THIS LEGISLATION WAS REFERRED--POST OFFICE AND CIVIL SERVICE AND BANKING, FINANCE AND URBAN AFFAIRS--I HAVE DOUBLE THE INTEREST IN SEEING THIS BILL ENDORSED BY THIS COMMITTEE AND MOVED TO THE FLOOR OF THE HOUSE AS SOON AS POSSIBLE. IN THAT LIGHT, I WOULD LIKE TO COMMEND CONGRESSWOMAN OAKAR, THE SPONSOR OF H.R. 4703 AND MY SUBCOMMITTEE CHAIRWOMAN, FOR HER PROMPT ATTENTION TO THE PAYROLL ALLOTMENT SITUATION. I WOULD ALSO LIKE TO THANK YOU, MR. CHAIRMAN, FOR SCHEDULING THESE TIMELY HEARINGS. I KNOW THAT THE THOUSANDS OF FEDERAL EMPLOYEES IN MY CONGRESSIONAL DISTRICT SHARE MY APPRECIATION AS WELL.

MR. CHAIRMAN, THERE IS WIDE-SPREAD, BI-PARTISAN AGREEMENT IN THIS NATION THAT WE MUST DEVELOP ECONOMIC POLICIES WHICH ENCOURAGE INDIVIDUAL SAVINGS. THIS PAST YEAR, THE CONGRESS ENACTED SEVERAL MEASURES TO ACCOMPLISH THIS GOAL--THE NEW ACCESS TO INDIVIDUAL RETIREMENT ACCOUNTS, AND THE ALL SAVERS CERTIFICATES ARE JUST TWO NEW PROVISIONS ENCOURAGING PERSONAL SAVINGS. ALONG WITH THESE SUBSTANTIVE SAVINGS ENTICEMENTS ARE TECHNICAL MEASURES WHICH MAKE IT EASIER FOR AN INDIVIDUAL TO PLACE HIS OR HER MONEY IN A FINANCIAL INSTITUTION FOR SAVINGS PURPOSES. THE PAYROLL DEDUCTION HAS ALWAYS BEEN AN EFFECTIVE MEASURE TO FACILITATE TRANSFERS FROM ONE'S PAYCHECK TO ONE'S SAVINGS ACCOUNT. IN SHORT, PAYROLL DEDUCTIONS ARE THE VERY BASIS OF A SYSTEMATIC SAVINGS PROGRAM.

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UNLIKE THE PAYROLL DEDUCTION PROGRAMS FOUND IN MOST PRIVATE INDUSTRIES, THE FEDERAL GOVERNMENT LEVIES A HANDLING FEE FOR PAYROLL TRANSFERRALS. WHILE THE TREASURY PICKS UP VERY LITTLE REVENUE FROM THESE PAYROLL ALLOTMENT CHARGES, THE COST TO THE FEDERAL EMPLOYEE AND THEIR FINANCIAL INSTITUTION IS BECOMING ENOUGH OF A BURDEN THAT IT POSES A CLEAR THREAT TO THE GOALS OF PAYROLL DEDUCTIONS.

AS YOU KNOW, MR. CHAIRMAN, EVERY CREDIT UNION CHARTERED BY THE FEDERAL GOVERNMENT HAS A STATUTORY MANDATE TO PROMOTE THRIFT. INDEED, IT IS IN THE BEST INTERESTS OF ANY FINANCIAL INSTITUTION TO PROMOTE SAVINGS BY THEIR DEPOSITORS. YET IN CHARGING FOR FEDERAL CIVILIAN EMPLOYEE PAYROLL ALLOTMENTS, THE GOVERNMENT IS ESSENTIALLY DISCOURAGING SYSTEMATIC S VING BY FEDERAL EMPLOYEES. ANY INDIVIDUAL DOING BUSINESS WITH AN INSTITUTION THAT IS CHARGED BY THE GOVERNMENT FOR PAYROLL ALLOTMENTS IS INDIRECTLY PAYING FOR THAT CHARGE. THESE PAYROLL ALLOTMENT CHARGES CONSTITUTE NOTHING LESS THAN A FLAGRANT FRUSTRATION OF OUR GOAL TO FOSTER INDIVIDUAL SAVINGS.

I UNDERSTAND THAT SOME OF THE OTHER WITNESSES THIS MORNING WILL BE DISCUSSING A RECENT TREASURY REGULATION TO BECOME EFFECTIVE ON MAY 31, 1982, WHICH WOULD DOUBLE THE ALLOTMENT USER FEE. SINCE I STRONGLY DISAGREE WITH ANY USER FEE, AND FULLY SUPPORT CONGRESSWOMAN OAKAR'S BILL, I WILL NOT TAKE ANY MORE OF THE COMMITTEE'S TIME TO DENOUNCE THIS REGULATION.

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As you may know, Mr. Chairman, 1981 was a very difficult year for Federal employees. The looming spectre of reductions-in-Force, reduced health benefits and increased premiums, a reduction in the annual cost-of-living allowances and a host of other assaults on the security, benefits and compensation of Federal employees, has left the Civil Service seriously demoralized. Paranthetically, I might add, Mr. Chairman, that I was disappointed that the Director of the Office of Personnel Management, Dr. Donald Devine, refused your request to testify on his legislation. While OPM is THE agency charged with responsibility over the Government's personnel system, its Director has seemingly once again chosen to ignore an issue of import to Federal employees.

In short, Mr. Chairman, it is becoming clear that Federal employees have been singled out to bear more than their fair share of budgetary sacrifices. I think it is time to address some of these inequities, and H.R. 4703 is a step in that direction. I commend Congresswoman Oakar once again for her leadership on this issue and you, Mr. Chairman, for the sensitivity you have exhibited in addressing the inequities inherent in the payroll allotment user fees. This legislation corrects the wrongful assessment of Federal employees and financial institutions for their utilization of a savings systen designed to encourage a nation of savers instead of a nation of spenders. I believe it deserves this Committee's speedy endorsement and support on the floor of the House.

Thank you, Mr. Chairman.

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93-035 O—82——3

Chairman ST GERMAIN. Thank you, Mr. Hoyer.

Any questions?

[No response.]

Chairman ST GERMAIN. Mr. Hoyer, I don't know if you are aware of this, but I heard on the news this morning that there were 52 or 54 Republican freshmen caucusing on the steps stating they don't have any work to do, and I look about me and I don't see any of my freshmen Republicans here. I don't know about them, but I find I have a lot of work to do. I don't suppose you are going to join them. I imagine you've got a little work to do as well, haven't you?

Mr. HOYER. With the attacks that daily are made on the Federal employees by this administration, I can assure the chairman and assure those freshmen Members that I am daily and hourly attempting to overcome the deeds of this administration with reference to our Federal employees, and indeed with respect to many, many programs, including housing. We are having a subcommittee hearing today. I don't know to whom the Congressmen are listening, but I would suggest that if they are feeling that there is nothing to be done, that they read the remarks of their colleague, Mr. Marks, of 2 days ago. He indicates there is a lot to be done.

Chairman ST GERMAIN. Amen.

We thank both of you.

Mr. HOYER. Thank you, Mr. Chairman.

Ms. OAKAR. Mr. Chairman, if you don't mind, I would like to don my other hat and join you on the subcommittee.

Chairman ST GERMAIN. We would be most pleased to have you join us. You add that touch that we need. [General laughter.]

Now we will have the panel of Col. George Myers, executive director, Defense Credit Union Council and chairman of the Coalition Committee of Financial Institution Trade Associations; Mr. James Barr, executive vice president, Credit Union National Association, Inc.; Mr. Mal Nestlerode, executive vice president, National Association of Federal Credit Unions; and Patrick F. Smith, legislative liaison, National Treasury Employees Union.

Gentlemen, without objection, we will put your prepared statements in the record, and we will ask you to comment or proceed as you will.

We will follow the order in which you are listed on the subcommittee notice. First we will hear from Colonel Myers.

STATEMENT OF COL. GEORGE E. MYERS, USA (RETIRED) EXECUTIVE DIRECTOR, DEFENSE CREDIT UNION COUNCIL, AND CHAIRMAN, COALITION COMMITTEE OF FINANCIAL INSTITUTION TRADE ASSOCIATIONS

Colonel MYERS. Mr. Chairman, thank you for the opportunity to testify here today on this bill. I am here in the capacity as chairman of a coalition committee of financial institution national trade associations who strongly support this measure. I have submitted a formal statement, but with your permission, Mr. Chairman, I would like to add a few oral comments.

I support the comment made by the Honorable Representative, Ms. Oakar, that it is ironic that the Federal Government should be pushing the savings programs such as all-savers and the IRA, and

yet throwing an impediment in the procedure by charging for allotments by which many people invest in these savings programs.

It is not my purpose in appearing before you this morning to go into the facts and statistics supporting this bill. You have other members of the panel here who can do that most capably, I am sure, and I will leave the arguments to them, but it so happens that all of the other witnesses appearing this morning, all of whom represent national trade associations which are members of this coalition committee which I chair, are from credit union organizations.

My purpose here is to dispel any misconceptions that this is solely a credit union bill. It is not credit union legislation, though credit unions are vitally concerned. The bill has the support of banks and savings and loan associations as well, and I might add, they have a far greater number of allotments than credit unions.

The coalition committee which I represent includes, besides the Association of Military Bankers of America, the American Bankers Association, the Independent Bankers Association of America, the National Association of Mutual Savings Banks, the National League of Savings and Loan Associations, the U.S. League of Savings Associations, and the Air Force Sergeants Association, in addition to the National Credit Union Associations represented by Mr. Barr and Mr. Nestlerode here this morning.

The coalition committee is fully supporting this bill, H.R. 4703, and believes that it serves the best interest of the Government, the economy, and the Federal employee. We strongly urge its early consideration and passage by the Congress.

Mr. Chairman, the Association of Military Banks of America, whose membership consists of banking institutions providing banking services for military and civilian defense employees throughout the world, has requested that I insert the following comments into the record, and with your permission, Mr. Chairman, I would like to read their statement for the record:

The Association of Military Banks of America speaking on behalf of its members, opposes the assessment of fees upon financial institutions for the purpose of recovering the cost of administering payroll allotments. While we fully understand and approve of the justification and rationale for the Government providing allotment services for military personnel and civilian personnel located overseas without a payroll assessment allotment cost, we conversely do not understand why it is necessary to discriminate against other civilian Government employees desiring to make similar allotments of pay.

Until now, the discrimination has been subtle. However, as the costs continue to rise, the discrimination feature will become very evident as financial institutions react by refusing or canceling allotments because they are uneconomical to process. Furthermore, you may rest assured that some financial institutions may find it necessary to pass on the costs to its customers, at which time the civilian Government employees will fully understand the discrimination, especially when allotment programs in the private sector are provided routinely as an accommodation to employees.

Finally, this association believes there is something inherently wrong with a regulation which assesses charges against the institutions for services it did not request and in amounts that appear to have been determined without benefit of the best available cost-effective business techniques. This is more than sufficient justification for recommending a repeal of the statutory requirement to charge for allotments.

The Association of Military Banks of America encourages the subcommittee to endorse H.R. 4703.

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That is the end of the statement from the Military Banks of America, and that, Mr. Chairman, concludes my statement. I would be prepared to answer any questions.

[The prepared statement of Colonel Myers follows:]

STATEMENT OF

COL. GEORGE MYERS, RET.

CHAIRMAN, COALITION COMMITTEE OF FINANCIAL INSTITUTION TRADE ASSOCIATIONS

AND EXECUTIVE DIRECTOR, DEFENSE CREDIT UNION COUNCIL

Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to testify on H.R. 4703, a bill to permit Federal employees to establish payroll deduction plans without the direct and indirect costs which are presently charged by the government. I am Chairman of the Coalition Committee of financial institution national trade associations supporting the legislation to end the discrimination created by the Federal government payroll allotment practices against Federal civilian employees. I am also the Executive Director of the Defense Credit Union Council, a member of the Coalition. In 1968, I participated in the successful effort by credit unions and others that resulted in adoption of legislation which allowed Federal employees to make allotments from their salaries for savings deposits in more than one financial institution. That legislation directed the Federal government to recover the "cost" of providing such allotments.

Today, I represent a Coalition of financial institutions which has worked over the past three years to bring federal allotment practices in line with that of the private secor. Federal civilian employees are singled out under current law because, unlike the general practice in the private sector and with overseas federal employees, their payroll deductions result in a direct charge to the receiving financial institution.

The Coalition was formed in 1978 to participate in a Comptroller General's study of the payroll allotment program. That study, published September 29, 1978, determined that a complete review by Congress of allotments was appropriate. Further, the first of the Study's four suggestions was that Congress consider abolishing "the existing charges for civilian allotments."

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The Coalition applauds the Committee's attention to this issue. We encourage speedy consideration and action to eliminate the counterproductive fee for federal civilian allotments. A fee increase of 100% has been proposed by the Treasury Department to take effect May 31, 1982. These increased fees, however, can frustrate financial institutions' participation in direct deposit programs as well as allotment programs.

The coalition includes representatives of the American Bankers Association, the Association of Military Bankers of America, the Credit Union National Association, the Defense Credit Union Council, the Independent Bankers Association of America, the National Association of Federal Credit Unions, the National Association of Mutual Savings Banks, the National Savings and Loan League, and the United States League of Savings and Loan Associations. Each organization endorses the position taken by the Coalition panel today and urges the adoption of H.R. 4703.

In 1968, the Treasury Department opposed the legislation authorizing allotments for federal civilian employees. Its primary reason for doing so was the anticipated competition payroll deduction represented for the savings bond program. Events of the past 10 years have shown that changing consumer savings patterns and market interest rates, not allotment programs, have been responsible for the reduced participation in savings bond programs. I can only suggest that the Treasury's present reasons for opposing this bill are equally suspect.

Mr. Chairman and members of the Committee, I am not going to claim that passage of this bill will result in additional allotments and increased savings; that probably would be inconsistent with the economics of these times. But I do want to assure you that passage of this bill will strengthen the allotment program. First, it will standardize the government's allotment policy and

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Eliminate a glaring inequity under which some civilian employees, namely those serving overseas, are provided free allotments, while others, specifically those here in the United States, are being charged directly or indirectly for the service. Secondly, financial institutions generally have been absorbing the 6¢ presently levied for each allotment; but if the fee is doubled to 12¢ on May 31 as presently announced by the Treasury Department, a great many financial institutions are going to have to pass the charge back to the federal civilian employee through service charges, higher loan rates or lower rates of return on savings. That may, and undoubtedly will in many cases, discourage an individual from making a savings allotment. This will directly affect the Administration's program of encouraging savings through allotments, and may even have an affect upon the Direct Deposit program.

Mr. Chairman and members of the Committee, the facts supporting this bill will be covered in greater detail by other witnesses scheduled to appear before you -- all of whom are members of the Coalition Committee supporting this measure: Mr. Dwyer, president of the Defense Credit Union Council who was unable to be present this morning but whose statement is submitted for the record; Mr. Barr, Executive Vice President of the Credit Union National Association; and Mr. Nestlerode, Executive Vice President of the National Association of Federal Credit Unions. While these witnesses all happen to represent credit union organizations, I want to emphasize that this bill is the result of the organized and united efforts of the Coalition Committee composed of banks, mutual banks, Savings and loan associations and insurance company representatives -- all of whom have as much, if not more, interest in its passage as the credit union groups.

On behalf of the Coalition Committee, I urge you to eliminate an inequity in the allotment program, and to support the government's savings efforts by providing a uniform, consistent allotment service to our federal civilian employees by reporting this bill, H.R. 4703, favorably. Thank you.

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Chairman ST GERMAIN. Thank you, Colonel.
We will now hear from our old friend, Mr. Barr.

STATEMENT OF JAMES C. BARR, EXECUTIVE VICE PRESIDENT, CREDIT UNION NATIONAL ASSOCIATION (CUNA)

Mr. BARR. Thank you, Mr. Chairman.

Before starting, I first want to compliment Ms. Oakar for introducing this bill, and our gratitude to you, sir, for agreeing to hold these hearings so promptly on the issue.

I am Jim Barr, executive vice president of the Credit Union National Association.

Former Banking Committee Chairman Mr. Patman in 1968 sponsored legislation to provide allotments to Federal employees on a uniform basis. Other bills in 1961 and 1965 had already made some payroll savings possible. The 1968 legislation, for the first time, required receiving financial institutions to pay for each allotment. H.R. 4703 would correct a practice which clearly discriminates against one category of Federal employees, civilians working in the United States. Nobody else has to pay to receive a benefit from the Federal Government.

Moreover, the 1981 CUNA survey shows conclusively the contrast between the Federal practice of charging for allotments and the overwhelming practice of private industry which does not charge for similar payroll deductions. According to the survey, just under two-thirds of the responding credit unions receive some form of Federal civilian allotment. Of those credit unions, over 38 percent had assets under $1 million. Inevitably, increased costs for allotments fall most heavily on small credit unions.

The survey showed that approximately 85 percent of the credit unions receiving private sector payroll allotments were not charged for receiving allotments. The inescapable conclusion is that private industry regards an allotment as an employee fringe benefit.

One of the most difficult notions to dispell about the allotment program is that if government does not directly recover the cost of the program from financial institutions, it is in effect offering a subsidy to the private sector. The encouragement of regular savings insures a source of funds for employees to meet emergencies or to finance large purchases. This results in fewer employees who overextend themselves and get into financial difficulty. This leads to a more productive and stable work force and fewer complaints to the Federal Government from creditors concerning Federal employees in financial difficulty.

We recently criticized the Treasury proposal to increase the fees for allotments. We noted significant problems with the formula used by Treasury to establish the fees in 1968. That remained uncorrected in the 1981 Treasury proposal to increase the fees. In short, our analysis of the formula can be summarized as finding the Treasury guilty of multiplying a guess times a guess to arrive at the new fees. The agency is simply unable to accurately determine, using a formula-cost-accounting method, what the cost of the allotment is.

We suggest that technological changes have occurred in the last 13 years which greatly reduce the potential operational burden of

the payroll deduction plans. Treasury has indicated its concern for the potential loss of revenue to the Treasury. This concern is not taken lightly, especially right now. We must, however, continue to protest a personnel practice which places the Federal Government in a position so completely different from that of the private sector, and one which is inconsistent with the treatment of other Federal employees. In other words, why penalize the civilian employee to recoup funds for the Treasury?

H.R. 4703 properly recognizes the benefit of allotments to the Federal Government as an employer and to the Federal employee. Allotment programs stimulate savings and benefits the national economy. The present Federal policy of charging for allotments undermines these goals, and should be changed by adoption of H.R. 4703.

CUNA appreciates this opportunity to testify, Mr. Chairman, and we, too, will be glad to respond to any questions. Thank you.

[The prepared statement of Mr. Barr follows:]

93-035 O—82——4

STATEMENT OF

JAMES C. BARR

EXECUTIVE VICE-PRESIDENT,

CREDIT UNION NATIONAL ASSOCIATION, INC.

Good morning. I am James C. Barr, Executive Vice-President and Director of the Governmental Affairs Division of the Credit Union National Association, Inc. (CUNA).

Credit unions are democratically controlled, mutually owned, depository financial institutions. The Credit Union National Association represents nearly 20,000 state and federally chartered credit unions through 52 member credit union leagues. Each credit union must serve a group with a common bond of occupation, association or residing within a well-defined geographic area. Over 800 credit unions have been chartered to serve federal employees. That is, the common bond of these credit unions is that of a particular agency, group of agencies, branch of the military or military base. For instance, the Federal Reserve Board, Department of Labor and Treasury Department all have credit unions chartered to serve their employees. Similarly, Post Office employees and members of the armed services have credit unions which provide convenient financial services to them on a cooperative basis.

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BACKGROUND

In 1967, House Banking Committee Chairman, Wright Patman, introduced legislation to permit federal employees to purchase shares of federal or state-chartered credit unions through voluntary payroll allotments. The purpose of the bill was to permit federal employees to save through a payroll savings plan. During the process of adopting the payroll deduction legislation, banks and other depository financial institutions were authorized to receive payments through payroll deduction.

The legislation was necessary because, although each agency had the authority at that time to authorize payroll allotments "for such payments as each department head deems appropriate" (5 U.S.C. § 3075), the authority was being administered in different ways at different agencies, thus frustrating organized payroll savings. The legislation provided that each agency must make up to two deductions for any employee. The government was to be reimbursed for the cost of making those deductions; however, the remainder of the employee's check was to be deposited free of charge in any institution the employee selected. In order to avoid disputes over which institution was charged for the deduction, the

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legislation currently provides that the institution receiving the largest portion of a check will not be charged for the payroll deposit.

The bill before the Subcommittee would eliminate the provision that now requires the government to assess a charge for a payroll deduction of a civilian, federal employee. The legislation is being sought to correct a practice which discriminates against one category of federal employees--civilians working in the United States.

NEED FOR LEGISLATION

It is clear that payroll deductions are an effective and efficient way of encouraging savings that benefit the economy. In authorizing payroll deductions in 1969, Congress took the significant step of establishing a uniform policy for encouraging thrift by federal employees. Payroll savings is an effective way of removing funds from the direct spending stream thereby helping to reduce inflationary pressures.

Payroll deductions also benefit the federal government as an employer. Many businesses have payroll savings plans and recognize these plans as a sound business practice.

Finally, it is clear that payroll deduction benefits the federal employee. It makes it easier and more convenient to save on a regular basis. It also provides a ready source of funds which helps to reduce personal financial problems.

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Despite the laudable purposes of payroll savings deductions, the presence of the charge for federal civilian allotment payments, which must be borne by financial institutions, reduces the willingness of depository financial institutions to participate in these programs. In 1969, the Banking and Currency Committee suggested that a two cent charge, exclusive of postage, should provide sufficient revenue to recoup any expenses to the government. The charge, initially established at 12 cents per allotment check and 6 cents per item, has not been altered since 1969. Treasury proposals which would more than double the cost to financial institutions of receiving payroll deductions have forced a re-examination of the appropriateness of these charges. It is CUNA's position that such charges are unwarranted and in any true cost/benefit analysis, the costs are clearly outweighed by the benefits to the federal government as an employer and the direct benefit to its employees.

PURPOSE OF ALLOTMENT CHARGES

In 1968, the Congress was concerned about the burden that an expanded allotment program might place on federal payroll operations. The Treasury Department was particularly concerned about the potential impact of increased allotments on the deductions for payroll savings bonds.

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It is readily apparent that technological changes have occurred which greatly reduce the potential operational burden on payroll operations posed by payroll deduction plans. Similarly, any impact on the Treasury's bond purchase program attributable to the increased allotment authority appears negligible.

OPERATION OF THE ALLOTMENT PROGRAM

A federal civilian employee, desiring to make an allotment to his or her credit union, files a government Form 1199 at their agency requesting the allotment. The allotments are sent to the credit union by individual checks or, ultimately, electronic deposit. When more than one employee in the same agency chooses to make an allotment to the same credit union, the agency will generally send a single or consolidated Treasury check to the institution. This procedure cuts down on the number of individual checks from one agency to the same credit union.

Under Department of Treasury regulations, government agencies charge the credit union for processing allotments of the agency's civilian employees working in the United States. The charges established in 1968 are currently being reviewed and, as indicated earlier, will more than double by the end of May of this year.

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Present charges are 6 cents for each payroll deduction and 12 cents for each check, regardless of the number of deductions covered by the check. The 12 cent charge covers the cost of mailing and the 6 cent charge covers the cost of each payroll deduction. For example, a single blanket check to one credit union covering 100 payroll deductions for allotments requires a service charge of $6.12. This charge would more than double to $12.27 under the new proposal. The blanket, or composite, check is made out "net" of the service charge. And the financial institution credits the full amount to the depositors' accounts. The difference, or service charge, is the cost to the credit union and, ultimately, in the form of lower dividends or higher loan rates, to the consumer.

GAO STUDY

In 1978, the Comptroller General reported to Congress on the payroll allotment programs of the federal government. The report noted that the federal government's payroll allotment program permits military and civilian employees to have money withheld from their pay and sent directly to banks, credit unions, savings and loan associations and other organizations. It found that although the benefits to financial institutions are identical, the government only charges these institutions for processing allotments of civilian employees working in the

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United States. The government does not charge the same for similar organizations to handle military allotments or allotments of civilians working overseas.

The GAO report recommended that Congress consider "whether the allotment program, as presently administered by federal agencies, is meeting its expectations. Congress could explore the following options in deciding what, if any, changes should be made.

-- Drop the existing charges for civilian allotments.
-- Charge financial institutions for the current costs of all allotments.
-- Distribute the current cost for all allotments between the government and the financial institutions and insurance companies.
-- Make no change in the existing legislation."

The report concluded that there is a basic disagreement among the "principal agencies as to whether the government should recover its costs to send military personnel and overseas civilian allotments to such organizations" (financial institutions and insurance companies). The report finds also at issue "whether the government should continue to charge for its U.S. civilian allotments." It noted that the allotment program seems of "value to the employee, the federal govern-

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ment as an employer, and the financial organizations." The report called on the Treasury Department to update its rates.

Clearly, the General Accounting Office considered elimination of charges for federal civilian allotments an issue to be actively pursued by Congress. Its conclusions and recommendations, however, failed to suggest a specific course of action. Therefore, it is important to understand the different approaches taken by the government with regard to payment for allotments, the inconsistencies in these programs and the sound basis for eliminating the charges.

PRESENT POLICY DISCRIMINATES AGAINST FEDERAL CIVILIAN EMPLOYEES WORKING IN THE UNITED STATES

Military Allotments. In 1899, the Congress authorized military personnel to have deductions withheld from their pay and sent directly to another person or organization. Over the years, most of the original statutes covering this program have been revised, but the basic program has been retained and expanded. Today, active and retired military personnel are authorized by 37 U.S.C. § 701-704 to make allotments, without charge, to banking institutions and insurance companies. In addition to providing a ready means for encouraging savings, allotments continue a stream of payments and savings for

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military personnel who may be required to move to new locations for long periods of time on short notice.

Civilian Allotments. Congress authorized the Civil Service Commission in 1961 to extend allotment privileges to all federal civilian employees. The Commission, however, limited the types of allotments federal agencies could authorize for civilian employees working in the United States. For example, an agency could process payroll deductions for civilian employees working in the United States, but these were limited to union dues, charitable contributions, and taxes (5 U.S.C. § 5525). Labor unions were charged for this service. The Commission, however, allowed civilian employees working overseas, including those in Alaska and Hawaii, to have allotments without requiring reimbursement from an institution.

In 1965, the payroll allotment program was expanded, as indicated previously, to allow agency heads, at their discretion, to authorize employees to have allotments sent to financial institutions (31 U.S.C. § 492(b)). Under this authority, the employee could request that his or her net pay (after all payroll deductions) be sent to a designated financial institution for credit to a checking account. Neither

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the 1965 legislation nor the 1961 legislation required the government to charge either the financial institution or the employee for these services.

In June 1968, the payroll deduction authority (31 U.S.C. § 492(b)) was further expanded to provide a uniform allotment rule for all federal employees. All federal employees were authorized to request that their agency send up to two payroll allotments to financial institutions in addition to their regular pay check. This change required the recovery, from the receiving financial organization, of the administrative costs for processing the additional payroll deductions. The legislation does not require charges for military personnel, and the Department of the Treasury regulations exclude civilian employees overseas from charges.

PRESENT ALLOTMENTS SYSTEM IS INCONSISTENT

According to the GAO, in 1977, each pay period civil and defense agencies sent to financial institutions about 600,000 allotments of civilians working in the United States. The GAO estimated that in 1976, the government spent about $2.6 million to process the allotments, but collected only $1.3 million for the service or "about one-half of the agencies' processing costs." Active and retired military personnel receive the bulk of allotments. The annual dollar value of

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allotments sent to financial institutions and insurance companies, according to the GAO, was about $2.2 billion in 1978.

It is clear that the present policy unfairly singles out one group of federal employees for discriminatory treatment.

IMPACT OF FEES ON CREDIT UNIONS

In July 1981, the Credit Union National Association undertook a survey, completed in September 1981, to show conclusively the contrast between the federal practice of charging for allotments and the overwhelming practice of private industry which does not charge for similar payroll deductions.

Most credit unions have fields of membership based on occupation. This makes it relatively easy to isolate the credit unions primarily serving federal employees and to compare their payroll practices with those in the private sector sponsored by employers allowing payroll deductions.

The survey automatically included all credit unions with fields of membership serving employees of civilian and military federal government departments. A total of 1,122 federal and state-chartered credit unions serving those employees were contacted. A second stage of the sample was a random selection of federally chartered or insured credit unions with

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assets in excess of half a million dollars in all other membership classes. The total sample included 2,079 credit unions. Of that number, 1,377 credit unions (66.2%) provided usable responses.

According to the survey, just under two-thirds of the responding credit unions received some federal civilian allotments, and over half of the credit unions in all asset-size groups get at least one allotment payment. Just over two-thirds of all credit unions receive other payroll deductions. There is a rough comparability between the receipt of allotment and non-allotment deductions in all size categories. The survey also revealed that there is a rough comparability between the number of federal allotments and non-federal allotments received by credit unions.

Small credit unions serving federal civilian employees rely heavily on payroll allotments. According to the survey, over 38.4% of those credit unions with assets under $1 million get allotments from more than half of their members. By comparison, only 3% of the largest credit unions report receiving allotments from more than half of their membership. Inevitably, increased costs for allotments fall most heavily on small credit unions.

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The Treasury Department believes that the proposed increase in fees will not have a "significant impact on financial institutions" ("Work Plan to Increase Service Charges for Savings Allotments", memo from Charles White to Steven L. Skancke, November 6, 1980, p. 4). The Treasury Department estimated that the average amount of an allotment is $30. Treasury then estimated that approximately $705 million in savings deposits were generated through federal civilian employee allotments. The approximate cost to financial institutions in 1979 for federal civilian employee allotments was $2.52 million. This represented a cost of 37 basis point (0.37%) for each dollar obtained. Increasing the charges for allotments to the new level would raise this to 73 basis points, an increase of 36 basis points. In 1979, the "average credit union" had a net operating margin of 43 basis points. Thus, these increases in allotment charges nearly offset the operating margin on the average dollar held by the credit union--an increase which must be judged as extremely significant.

The CUNA survey showed clearly that only a very small percentage of all credit unions receiving non-federal allotment deductions are charged for those allotments. Overall, approximately 85% of the credit unions receiving non-federal

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payroll allotments were not charged for receiving allotments. However, this 85% figure is probably low because a number of credit unions serving federal employees reported an unusually large number of private employers whose deductions were received were also charging for those allotments. This indicates that federal employee credit union respondents may have placed the information about charges in the wrong area.

It is especially noteworthy that no credit unions serving retail trade and insurance companies, only 5% of those serving manufacturing, 7% of those serving service industries, and 4% of community credit unions are charged for allotments by private employers. Public employees, state, county and municipal governments are more likely to be charged, according to the survey. It is likely that these government units follow the precedent set at the federal level. Similarly, labor unions serving federal employees are charged for allotments they receive from federal civilian employees and the result is skewed with regard to that category of credit union. Finally, it appears that a number of credit unions serving transportation workers are charged for allotments. In the survey, eight transportation credit unions out of 72 respondents reported being charged for receiving allotments from non-federal employees.

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The inescapable conclusion is, however, that private industry regards an allotment as an employee fringe benefit. In less than 10% of the private sector sample did credit unions report being charged for employee payroll allotments.

The survey also showed that when credit unions are grouped by NCUA common bond classification, those credit unions serving federal employees are paying a much higher percentage of adjusted operating expenses (expenses without salaries) for allotments than are credit unions primarily serving private sector employees. Approximately 2.6% of all credit unions surveyed reported that the charge for federal civilian allotments was larger than 5% of adjusted operating expenses. This figure would increase to approximately 14% of reporting credit unions if the proposed changes are made in the fees for allotments. This translates into a charge for allotments of federal civilian employees that is, in many instances, in excess of what the credit unions are paying during the entire year for heating, water, electricity and all other services received by the credit union. The impact of an increased fee would be particularly hard among those credit unions serving just federal government employees where the number of credit unions reporting greater than 5% of 1980 adjusted operating expenses attributable to allotment charges would increase to 26.3%.

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The inescapable conclusion is that the impact of the increased fees on credit unions is of great significance. It is clear that it is not common practice in the private sector to charge for allotments to employees. The CUNA survey bears out the suggestion heard from credit union managers throughout the country, that if the fee increase is put in place they will either have to discourage participation in the allotment program or find ways in which the costs could be passed on directly to the allotment recipient.

FEDERAL CIVILIAN ALLOTMENTS DO NOT REPRESENT SUBSIDY

One of the most difficult notions to dispel about the allotment program is that if the government does not directly recover the cost of the program from financial institutions, it is in effect offering a subsidy to the private sector. Webster's dictionary defines a subsidy as "a grant by a government to assist an enterprise deemed advantageous to the public."

Congress stated in 1968 that allowing additional payroll deductions "will benefit the federal government as an employer." It specifically found that "many progressive employers in business and industry have payroll savings plans and these have come to be recognized as a sound employment practice." The encouragement of regular savings assures a source of funds

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for employees to meet emergencies or to finance large purchases. This should result in fewer employees who overextend themselves and get into financial trouble. This, in turn, should lead to a more productive and stable work force and fewer complaints to the federal government from creditors concerning federal employees in financial difficulty.

The Congress also found that the bill would benefit "the federal employee. It would make it easier and more convenient for the average employee to save on a regular basis."

These findings make it clear that Congress considered the federal government as an employer and the individual employee as the major beneficiary of payroll deductions. Therefore, there is no grant to a private sector company. The employee merely gets to deposit funds in ways he or she desires with the maximum incentive for financial institutions to participate in the arrangement.

IMPACT ON DIRECT DEPOSIT PROGRAM

The direct deposit program has been actively supported by credit unions since it was instituted by the Federal government after payroll systems became centralized and highly computerized. In an effort to reduce costs, the government has been largely successful in arranging with financial institutions for the direct deposit of federal employee pay.

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Today, most employees of federal agencies may request that their net pay be deposited directly in a particular financial institution. In the past, credit unions were severely disadvantaged in attempting to obtain these direct deposits because of their lack of a transaction or checking-type account. The statutory authorization for share drafts, achieved in 1980, has increased the credit union's ability to attract these deposits. However, less than 5% of all credit unions presently offer share draft services. Largely because of the small size of credit unions, they are still primarily savings institutions. The allotment program, therefore, remains extremely important.

It is inevitable, however, that the direct deposit program will grow in attractiveness to credit unions. The credit union experience with allotment fees will, however, dampen the potential for credit union participation in the direct deposit program.

The difference between a federal government civilian employee's allotment and direct deposit is more than semantics. There is a fee for an allotment, but there is no charge for a direct deposit. However, the only actual difference is the size of the amount sent to the financial institution. The inevitable result is that financial institution managers will

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not distinguish between the two programs. As the fees for allotments are increased, it becomes extremely difficult to convince managers to actively solicit deposits for the direct deposit system through their members. This, in part, is due to the fact that any increase in the number of direct deposits as the result of a campaign to attract these deposits is also accompanied by an increase in the number of allotments. If, as has been suggested above, a credit union is experiencing a decrease in its operating margin due to the increased cost of the allotment program, the credit union management would be hard pressed to support a campaign which would only aggravate that situation.

TREASURY POSITION

CUNA recently commented extensively on the Treasury proposal to increase the fees for allotments. We noted significant problems with the formula used by Treasury to establish the fees in 1968 that remained uncorrected in the 1981 Treasury proposal to increase the fees. In short, our analysis of the formula can be summarized as finding the Treasury guilty of multiplying a "guess times a guess" to arrive at new fees. They simply were not able to accurately determine, using a uniform cost accounting method, what the cost of allotments were. Some agencies said in 1968 that it

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cost 2 cents; others found the cost in excess of $1 per allotment. Ultimately, Treasury simply proposed multiplying the 1968 figure by an index of government cost increases.

Specific problems with this approach are: (1) there was no attempt to evaluate the 1968 base which was established before the first allotment was ever made; (2) no weight was ever given to the benefit to the government as an employer or to the benefit to the federal employee; (3) technological changes that reduce payroll operational costs were not considered; and (4) no analysis was made of the frequency with which changes are made by employees in their allotments.

This last point is extremely important since a great portion of the fees being proposed are attributed to labor costs. The experience of CUNA's members is that these allotments do not vary for long periods of time. However, the federal government is charging credit unions for each allotment as if a change were made in each pay period. This results in the continuing recovery of a one-time expense and a fee far in excess of what it should be. The point is, the fee Treasury is proposing was never fully analyzed. The potential for continuing escalation in costs has, as indicated earlier, significant potential impact on the allotment and direct deposit programs. Further, it suggests an unresponsiveness that is uncharacteristic of this Administration.

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Specific Treasury concerns with the bill are the provision eliminating the restriction on the number of allotments (presently two) and the loss of revenue to Treasury.

Treasury has yet to produce statistical analysis to support their concern that federal civilian employees would overwhelm the payroll system with requests for deductions. CUNA would suggest that this concern is as unfounded as was their 1968 concern that payroll allotments would undermine the Treasury bond program.

The second concern, loss of revenue to the Treasury, is one that, in this time of concern for the federal budget, is not taken lightly. We must, however, continue to protest a personnel practice which places the federal government in a position so dramatically different from that of the private sector and one which is also inconsistent with the treatment of other federal employees. As we have commented to the Department of Treasury, the only unimpeachable estimate they have provided in establishing the proposed allotment fee is the amount of increased revenue the government will raise. Basic problems with the way in which the fees have been established remain unchecked and uncorrected. The impact on Treasury revenues of H.R. 4703 is, therefore, in our opinion, vastly overstated and the unfairness of the Treasury approach readily apparent.

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CONCLUSION

The Credit Union National Association urges the timely adoption of this legislation. We will be pleased to work with members of this Subcommittee to achieve its passage.

As cooperative, consumer financial institutions, credit unions are privileged to provide service to millions of federal employees and their families. Allotments, although they are available to any financial institution, provide a major stream of savings dollars to credit unions. Many of these are quite small in comparison to other financial institutions. Thus, because of their size rather than just the volume, the impact of the fees is proportionately greater with other financial organizations.

We are urging adoption of H.R. 4703 because it properly recognizes the benefit of allotments to the federal government as an employer and to the employee. A financially stable federal employee increases the efficiency and productivity of the work force. Most important, however, is the fact that a growing allotment program stimulates savings and benefits the national economy. The present federal policy undermines these goals and should be changed by the adoption of H.R. 4703.

Thank you for the opportunity to testify today. I would be pleased to respond to your questions.

# # # # #

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Chairman ST GERMAIN. Thank you, Mr. Barr.

Now we will hear from Mr. Nestlerode.

STATEMENT OF MAL NESTLERODE, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS

Mr. NESTLERODE. Thank you, Mr. Chairman.

I am Mal Nestlerode, executive vice president of the National Association of Federal Credit Unions. In the interest of time here this morning, I will keep my oral statement extremely short.

As you know, every credit union chartered by the Federal Government has a statutory mandate to promote thrift. From their very beginnings, credit unions have carried out this congressional mandate by encouraging their members to build a strong savings program through systematic payroll deductions from their pay. Prompt congressional approval of H.R. 4703 would insure that there are no unnecessary impediments placed in the way of continuing to provide this valuable service to credit union members.

Credit unions have long been in the forefront of encouraging saving through payroll deductions. Almost all employers in the private sector provide this service at no cost to their employees or to their recipient financial institution. The Federal Government stands as one of the few large employers which charge a fee for allotments.

To summarize my prepared statement, the benefits to the economy that could be realized by a meaningful increase in Federal civilian employee savings far outweigh the cost to the Government in absorbing related administrative charges. No employee, least of all a public servant, should be compelled to pay a fee in order to save. NAFCU therefore endorses prompt action by the subcommittee and the Congress to abolish the fee imposed on payroll deduction allotments.

In the absence of favorable congressional action, the Treasury Department is expected to implement its regulation doubling the fee for payroll allotments on May 31, 1982. Obviously, time is of the essence.

I thank the subcommittee for the opportunity to appear before you today, and I also will be pleased to respond to any questions.

[The prepared statement of Mr. Nestlerode follows:]

Statement of Mal Nestlerode

Executive Vice President of the

National Association of Federal Credit Unions

Chairman St Germain and Members of the subcommittee, I am Mal Nestlerode, Executive Vice President of the National Association of Federal Credit Unions. The National Association of Federal Credit Unions (NAFCU) is the only national organization exclusively representing the interests of credit unions chartered by the federal government. There are 12,164 Federal credit unions throughout the country whose 26.9 million members hold more than 37 billion dollars in savings. As of December 31, 1980, 840 Federal credit unions served fields of membership composed principally of "federal government" employees. They have over 7 million accounts. Six hundred-two of those Federal credit unions serve civilian federal employees, and 238 Federal credit unions serve members of the military forces. These credit unions, collectively, held over 13.1 billion dollars in assets.

I appreciate the opportunity to appear before your subcommittee today and to speak in support of H.R. 4703. This bill would require the federal government to provide payroll deduction allotments under the savings allotment program at no cost to the federal employee or the recipient financial institution. At the outset, let me say that NAFCU strongly encourages positive action on this bill. In fact, more than 200 Federal credit union members and officials meeting here in Washington this past January unanimously endorsed the principles that underlie this legislation.

Mr. Chairman and Members of the subcommittee, the issue being discussed today is of crucial importance to credit unions whose memberships include federal civilian employees. Every credit union chartered by the federal government has a statutory mandate to promote thrift. (12 USC 1752 (1)). From their very beginnings, credit unions have carried out this Congressional mandate by encouraging their members to build a strong savings program through

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systematic deductions from their pay. This philosophy, truly the backbone of the credit union industry, has helped instill in countless millions of individuals the importance of saving. Since the Federal Credit Union Act was adopted in 1934, Federal credit unions have provided their members with a convenient and easy method to build consumer savings. The legislation under consideration today would ensure that there are no unnecessary impediments placed in the way of continuing to provide this valuable service to credit union members. We are here today to encourage this subcommittee to endorse H.R. 4703 as a statement of support for personal savings.

EXISTING FEES

Currently, Title 31 of the United States Code, Section 492(b), calls for financial institutions to reimburse agency costs for the sending of allotment checks to savings accounts at financial institutions. Only the allotments of federal civilian employees located in the United States are affected by this regulation. As you know, the federal government will absorb the administrative cost of sending one allotment per pay period to an employee's designated financial institution, but the appropriate federal agency must be reimbursed by the recipient financial institution for any administrative costs incurred in processing additional savings allotments.

The Department of the Treasury was given the authority to establish and collect these service charges in 1968. At that time the charges were set at six cents for each individual payroll deduction and twelve cents for each check sent to a financial institution. This cost is presently incurred by many financial institutions -- including 84% of our nation's credit unions -- even though in some cases it would be easier and less burdensome not to receive

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the deposit in this manner. On May 22, 1981, the Department of the Treasury proposed to increase this service charge by doubling the cost for each deduction and raising the fee per remittance to twenty-seven cents, regardless of the number of payroll deductions listed. Unless the Congress determines otherwise, the Treasury Department proposes to implement this new fee schedule on May 31, 1982.

H.R. 4703

A distinguished Member of this subcommittee, Representative Oakar, responded by introducing H.R. 4703, a bill designed to eliminate entirely the charges for federal civilian employee payroll allotments. This proposal strikes the language of Section 3620 of the Revised Statutes, which gives the Treasury Department the authority to collect these fees, and inserts: "The agency shall make this service available without cost to the employee or financial organization involved." The National Association of Federal Credit Unions enthusiastically endorses this legislation as a necessary step toward restoring equity to those government employees.

REASON FOR FEES

Payroll deductions for saving grew out of a desire to help employees establish a stable savings program. In 1961, the first allotments for federal civilian employees were permitted at no charge to the employee for the specific purposes of labor dues, taxes, and charitable contributions. Congressional wisdom expanded this program in 1965 to allow allotments for other purposes, again without charge. In 1968, however, the Treasury Department was given the authority to charge a fee for any allotments beyond the first one. Employees are permitted to designate up to three allotments with charges incurred on

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the second and third. The rationale for imposing these fees grew out of a fear that these additional allotments would constitute an excessive burden on the federal government. NAFCU strongly believes that the basis for this decision should be reviewed in light of the emphasis now being placed on the need to encourage personal savings, and also in recognition of the cost-savings that now exist for the government as a result of enhanced computer programming capabilities.

CREDIT UNIONS AND PAYROLL DEDUCTIONS

Credit unions have long been in the forefront of encouraging saving through payoll deductions. Almost all employers in the private sector provide this service at no cost to their employees or to the recipient financial institution. The federal government conspicuously stands out as one of the few employers which charge a fee for allotments. In addition, both active duty and retired military personnel, as well as civilians working overseas, are currently exempted from any charges for allotments. Federal civilian employees located in the United States are the single group of employees chosen to bear this burden. When a credit union absorbs the cost of allotment fees, every member of the credit union, including those who are not federal civilian employees utilizing the allotment program, may be subjected to higher loan rates or lower dividends to off-set this expense. NAFCU firmly believes that the federal government should follow the lead of the private sector and do everything possible to actively encourage convenient methods of saving.

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CREDIT UNION OPPOSITION

Many credit unions have written to the Department of the Treasury opposing the proposed allotment charge increase. Indeed, I have been told that Treasury officials were buried under a literal deluge of letters from angry citizens opposed to the proposed increase. A majority pointed out that the credit union, in fairness to other members, will no longer be able to absorb the cost. As a result, individual credit union members may well be discouraged from establishing any systematic savings program.

One credit union, VAH Northport Federal Credit Union, wrote: "We receive payroll allotments from New York Telephone Company, Rockefeller Plaza, Singer Company, Sperry Rand, and the State of New York, all on a free basis." McGuire Public Employees Federal Credit Union responded to the proposal: "...no other institution except the Treasury Department charges financial institutions for receiving money from their customers/members."

Northeast Federal Credit Union responded: the "level of savings is a national disgrace ... and you are doing your utmost to thwart increased savings ... the federal government shouldn't have its payroll costs subsidized by the financial community any more than an industrial employer gets his processing costs reimbursed by outside recipients."

Earnings pressures are constantly increasing for many of these institutions. Doubling the charges for these allotments will cause some organizations to discontinue this important member service, with a resultant adverse impact on promoting savings. For smaller institutions, the fees for payroll allotments are already a significant portion of their operating expenses. These institutions may be forced into a corner by such an increase as they rely heavily on such allotments.

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ADMINISTRATION POLICY

The present Administration, since assuming office, has constantly elaborated upon the goal of increasing savings in order to curb inflation. Much has been said of reversing the trend from subsidizing the borrower to rewarding the saver. The Economic Recovery Tax Act of 1981 contained numerous provisions aimed solely at encouraging increased saving. Boosting the savings rate, it has been said, will lead to a reduction of inflation and a lowering of interest rates.

During its last Session, this Congress created new tax exempt certificates in an effort to raise the savings rate in this country. All Savers Certificates, which will cost the Treasury an estimated $4.75 billion in lost revenue, are being questioned by many as an effective way to create net new savings. A far more effective method of generating new savings results from the liberalization of rules governing eligibility for and contributions to Individual Retirement Accounts. Yet one of the keys to the success of expanded IRA programs is the attractiveness of establishing, through routine payroll deductions, a responsible habit of saving for one's retirement. Yet the Treasury Department has proposed an impediment to loyal federal employees who wish to establish responsible saving habits. With positive Congressional action on H.R. 4703 these impediments can be overcome and employers, employees and financial institutions, working in concert, would have the tools necessary to create a clear opportunity to create new savings through the use of payroll allotments.

INEQUITABLE TREATMENT

Federal civilian employees seem to be bearing the brunt of certain economic

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policies. Cost of living increases have been restricted in an effort to balance the budget. Reductions in the federal work force continue to threaten the job security of many federal employees. When Congress is unable to agree to the terms of appropriations bills, it is the federal employee whose pay is threatened. Private business, on the other hand, seems to take better care of its employees, and treats payroll deductions as an ordinary cost of doing business. Individuals directly employed by the federal government should be accorded the same treatment. The federal government should not ignore its responsibility to its own employees.

A financial institution is a third party beneficiary to a service provided to an employee by the employer. The federal government, as an employer, should assume the full cost and responsibility involved in the distribution of pay to its employees. The federal government, rather than discouraging savings, should be doing all in its power to encourage personal savings.

A HINDRANCE TO DIRECT DEPOSIT

Through the United States Treasury Direct Deposit Program, the government hopes to have all recurring payments done through electronic funds transfer systems. This would substantially reduce the operating cost of its payment system.

The Treasury's proposed increase in payroll allotment charges, we believe, will work against the goals established for the direct deposit program. This fee is in direct conflict with the theory of direct deposit. NAFCU fears that increasing fees charged to financial institutions will discourage cooperation in other government payroll savings programs, such as direct deposit.

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It must be assumed that any increase in the allotment fee presently assessed will diminish the ability of the government to attain 80% employee participation in the direct deposit program by 1990, as is the Treasury Department's stated goal. It will mean increased costs to the institutions which will be passed on to the consumer, in most cases. The end result may well be far fewer federal workers willing to participate in the program, thereby increasing actual payroll costs to the Treasury Department. Such a development would indeed be a step backward in the development of electronic payment systems.

NAFCU believes that the Treasury Department erred in its assessment that such an increase in allotment fees would not be burdensome to smaller financial institutions, such as credit unions. The Treasury Department should have provided an economic impact analysis before promulgating this proposal, as is required under Public Law 95-354, the Regulatory Flexibility Act.

NO NEED FOR INCREASE

As I stated in testimony before the House Post Office and Civil Service Subcommittee on Compensation and Employee Benefits on February 4th, NAFCU endorses H.R. 4703 and the elimination of any charges for payroll allotments. Technological advancements have caused agency costs to decline since their imposition in 1968. The Treasury Department's proposal suggests an unrealistically high increase in allotment charges. Through the utilization of more sophisticated electronic delivery systems, the administrative costs associated with the federal employee allotment program should have now been substantially reduced. The Treasury Department has failed to show the need for any increase in civilian allotment fees, while a convincing case can be made for the total elimination of such fees.

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SUMMARY

The National Association of Federal Credit Unions is supportive of any responsible effort that can be made to reduce unnecessary costs of government operations. However, in deliberating on the issue before this subcommittee today, it is evident that the Congress must examine both sides of the issue, and perform a careful cost/benefit analysis. On the one hand, government spending is too high, and every possible reduction should be considered. On the other hand, by doubling the fee charged for processing allotments, the federal government would be discouraging its own employee from saving. The private sector has traditionally offered this service to its employees without charge. Active duty and retired military personnel as well as civilian federal government employees overseas also receive this service at no cost. It appears that only federal civilian employees located in the United States have been arbitrarily and capriciously selected to pay for payroll allotments. Today, 2.3 million individual federal civilian employees who are making contributions to savings through payroll allotments are indirectly charged for this service.

The benefits to the economy that could be realized by a meaningful increase in the federal civilian employees' savings rate far outweighs the cost to the government in absorbing related administrative charges. The need to encourage consumer saving has become paramount. The Congress and the Administration constantly claim to be seeking ways to encourage increased saving. To flagrantly discourage the saving of newly earned dollars by imposing a fee on those who wish to save is, we believe, extremely short-sighted and ill-advised. It is a well recognized fact that an increased savings rate is a necessary step toward a strengthened economy. No employee, and least of all a public servant, should be compelled to pay a fee in order to save.

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The National Association of Federal Credit Unions, therefore, endorses prompt action by this subcommittee and the Congress to abolish the fee on payroll deduction allotments. In the absence of favorable Congressional action the Treasury Department has stated its intention to implement its regulation doubling the fee for payroll allotments on May 31,1982. Obviously, time is of the essence. The vehicle necessary to repeal the allotment fee is before the subcommittee today in the form of H.R. 4703. I urge each member of this subcommittee to demonstrate a clear commitment to a healthy economy and an increased savings rate by actively supporting this timely measure. I, along with the nine million individual credit union members represented by the National Association of Federal Credit Unions extend our appreciation to you, Mr. Chairman, to Representative Oakar and to numerous other Members of Congress for all that they have done to pursue this beneficial goal.

I thank the subcommittee for the opportunity to appear before you today, and will be pleased to respond to any questions you might have at this time.

Chairman. ST GERMAIN. Thank you, Mr. Nestlerode.
Mr. Smith.

STATEMENT OF PATRICK F. SMITH, LEGISLATIVE LIAISON, NATIONAL TREASURY EMPLOYEES UNION

Mr. SMITH. I am Patrick Smith, legislative liaison with the National Treasury Employees Union. Our union is the exclusive representative of over 120,000 workers in numerous Federal agencies.

I appreciate this opportunity to testify in favor of H.R. 4703, a bill which is intended to correct the present inequities in the Federal Government's payroll allotment system. In the course of our representational duties, we are exposed to numerous inquiries regarding the problems of Federal civilian employees. I can say with confidence to the subcommittee that the legislation before you today, H.R. 4703, has the unanimous support of our membership.

The Federal work force today is an embattled one. Since the voices of these workers are not as powerful as those of other interest groups, they have been the target of numerous attacks by this and recent administrations.

For example, in 6 of the last 10 years, the President has failed to adjust Federal pay to comparable wages in the private sector. These pay "caps" make Federal workers the only group of employees in the country under de facto wage controls. In addition, in 1981, this administration supported the elimination of one of the two cost-of-living adjustments for Federal annuitants.

This administration has also tampered with the Federal employee health benefits program, causing thousands of Federal employees to pay higher premiums for reduced benefits. As if that were

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not enough, the President, in his fiscal year 1983 budget submission, has proposed even further reductions in Federal pay and retirement. As the representative of over 120,000 Federal workers, I ask you, isn't this enough for one group of employees to bear?

The purpose of the legislation before you today is not to provide a benefit which does not exist in the private sector. Rather, H.R. 4703 would simply correct an inconsistent policy by dropping the fee that the Government currently charges financial institutions for processing payroll allotments for domestic civilian employees.

All of the evidence presented to the Congress clearly indicates that the overwhelming percentage of private employees view this service as a normal benefit employees should receive. We find it difficult to understand how this administration, which has preached again and again that the key to curbing inflation is to increase savings and incentives to saving, can logically oppose a bill designed to enhance the voluntary savings allotment program among Federal employees.

This legislation is beneficial to the Government as an employer, to the employee as a saver, and to the financial institutions involved, whose loans to members and other investments assist the Nation's economic growth.

I thank the subcommittee for the opportunity to appear today, and will be pleased to respond to any questions you might have at this time.

[Mr. Smith's prepared statement follows:]

STATEMENT OF PATRICK F. SMITH

NATIONAL TREASURY EMPLOYEES UNION

I am Patrick F. Smith, Legislative Liason with the National Treasury Employees Union. Our union is the exclusive representative of over 120,000 workers in numerous Federal agencies.

I appreciate this opportunity to testify in favor of H.R. 4703, a bill which is intended to correct the present inequities in the Federal government's payroll allotment program. In the course of our representational duties, we are exposed to numerous inquires regarding the problems facing Federal civilian employees. I can say with confidence to this Subcommittee that the legislation before you today, H.R. 4703, has the unanimous support of our membership.

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This legislation is beneficial to the government as an employer, to the employee as saver, and to the financial institutions involved, whose loans to members or other investments assist the nation's economic growth.

I thank the Subcommittee for the opportunity to appear today, and will be pleased to respond to any questions you might have at this time.

Chairman ST GERMAIN. Thank you, Mr. Smith.

Ms. Oakar.

Ms. OAKAR. Mr. Chairman, I just wanted to commend the witnesses, and our last witness, being an employee himself. I think it is really, really very important, and of course the colonel's testimony that indicates that not only credit unions but other financial institutions are very supportive of this legislation, I think, speaks for itself.

Mr. Chairman, I did want to mention that at yesterday's markup before the Post Office and Civil Service Committee I did offer an amendment which was adopted, and would keep the present limit on the number of allotments a Federal employee could authorize. That limit is three allotments.

The Office of Personnel Management and Treasury objected to H.R. 4703, particularly on the grounds that it allowed unlimited allotments and would require a Federal agency to completely redesign its payroll system at great cost to the Government. Although I question the validity of their argument, I did offer the amendment. It passed unanimously, and thereafter the bill itself passed unanimously. So, I just want to make that clear for the record. Thank you, Mr. Chairman.

Chairman ST GERMAIN. Mr. Wortley.

Mr. WORTLEY. I will pass, Mr. Chairman.

Chairman ST GERMAIN. Mr. Hoyer.

Mr. HOYER. No questions, Mr. Chairman.

Chairman ST GERMAIN. Gentlemen, your statements were so lucid and convincing and compelling that I think you have prob-

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ably convinced us. We thank you one and all for your assistance this morning.

At this point I would like to insert in the record the letter of invitation to the Treasury Department and the Office of Personnel Management as well as their responses.

[The letters and responses follow:]

FERNAND J. ST GERMAIN, R.I., CHAIRMAN
FRANK ANNUNZIO, ILL.
CHARLES HUDDARD, JR., KY.
NORMAN E. D'AMOURS, N.H.
JIM MATTOX, TEX.
JOSEPH G. MINISH, N.J.
DOUG BARNARD, JR., GA.
JOHN J. LAFALCE, N.Y.
DAVID W. EVANS, IND.
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BILL LOWERY, CALIF.
GEORGE C. WORTLEY, N.Y.

U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATION AND INSURANCE
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
NINETY-SEVENTH CONGRESS
WASHINGTON, D.C. 20515

March 4, 1982

Honorable Donald T. Regan
Secretary of the Treasury
Washington, D. C. 20220

Dear Mr. Secretary:

As you know, the Subcommittee on Compensation and Employee Benefits of the Committee on Post Office and Civil Service held hearings on the provisions of H.R. 4703 on February 4, 1982. On that occasion, Mr. William E. Douglas, Commissioner of Government Financial Operations, appeared on behalf of the Treasury Department. It is our understanding that it is Congresswoman Oakar's intention to request that the bill be scheduled for full Committee markup on March 10.

Inasmuch as the bill was jointly referred to the House Banking, Finance and Urban Affairs Committee, assuming action by the Post Office and Civil Service Committee, the Subcommittee will hold hearings on Thursday, March 11 at 10:00 a.m. in Room 2128 of the Rayburn House Office Building. Accordingly, the Subcommittee would appreciate receiving testimony from the Treasury Department on the provisions of H.R. 4703, a copy of which is enclosed. Should the Department wish to submit a written statement in lieu of oral testimony, the Subcommittee will incorporate Mr. Douglas' testimony before the Subcommittee on Compensation and Employee Benefits in our hearing record or distribute any additional statement that the Department cares to make. Please let us know of your desire by Tuesday, March 9.

Since I anticipate favorable action by the House Committee on Post Office and Civil Service and feel reasonably confident that the House Banking, Finance and Urban Affairs Committee will concur with that recommendation, I strongly urge that the Department's proposed regulations, seeking to increase the existing user fee scheduled to take effect on March 31, be indefinitely suspended pending final action by the Congress.

Please provide 100 copies of the Department's statement to the Subcommittee office, Room B303 Rayburn, by March 10. Should the Department decide to present oral testimony, please limit said testimony to 10 minutes in order to permit adequate time for Subcommittee questioning. The entire statement will, of course, be printed in the record and made available to members prior to the hearing.

Sincerely,

Fernand J. St Germain
Chairman

Enclosure

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

March 10, 1982

Dear Mr. Chairman:

This responds to your March 4, 1982, letter to Secretary Regan concerning the upcoming hearing by your Subcommittee on H.R. 4703.

In lieu of oral testimony, we appreciate being afforded the option to have incorporated in the hearing record the testimony that Mr. Douglas previously provided before the Subcommittee on Compensation and Employee Benefits. Accordingly, pursuant to a telephone conversation with Mr. Still, Staff Director, 10 copies of this testimony are enclosed.

For your information the amended Treasury Department regulation, increasing the service charges assessed to financial organizations that accept savings allotments, was published in the Federal Register on March 8, 1982. The effective date of this amendment was moved back to May 31, 1982, in order to allow agencies sufficient time to accommodate to the change.

The Department is increasing these service charges to fully comply with 31 U.S.C. 492(b) as well as with the recommendation contained in the 1978 report of the General Accounting Office, entitled "The Payroll Allotment Program needs a Second Look." We would consider any further delay in implementing these charges to be inappropriate.

Sincerely,

W. Dennis Thomas
Assistant Secretary
(Legislative Affairs)

The Honorable
Fernand J. St Germain
Subcommittee on Financial Institutions
Supervision, Regulation and Insurance
United States House of Representatives
Washington, D.C. 20515

Enclosure

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SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS
HEARINGS ON H.R. 4703
FEBRUARY 4, 1982
WILLIAM E. DOUGLAS
OPENING STATEMENT

WE ARE PLEASED TO HAVE THIS OPPORTUNITY TO PROVIDE OUR COMMENTS ON H.R. 4703, LEGISLATION THAT WOULD WAIVE THE FEE CURRENTLY LEVIED ON FEDERAL EMPLOYEE SAVINGS ALLOTMENTS TO FINANCIAL ORGANIZATIONS. THE TREASURY DEPARTMENT OPPOSES ELIMINATION OF THE FEE BECAUSE OF THE BENEFITS THAT THIS PROGRAM PROVIDES TO FINANCIAL ORGANIZATIONS. FOR EXAMPLE, DURING FISCAL YEAR 1981, OVER $1 BILLION IN FEDERAL EMPLOYEE SAVINGS ALLOTMENTS WERE MADE TO FINANCIAL ORGANIZATIONS, WHILE FEDERAL AGENCIES COLLECTED $2.1 MILLION IN FEES CHARGED TO THE FINANCIAL ORGANIZATIONS PARTICIPATING IN THIS PROGRAM.

THE INTENT OF 31 USC 492 WAS CLEARLY TO PROMOTE THRIFT ON THE PART OF FEDERAL CIVILIAN EMPLOYEES BY AUTHORIZING ALLOTMENTS OF PAY TO THEIR SAVINGS ACCOUNTS IN FINANCIAL ORGANIZATIONS. THE CONVENIENCE THAT THIS SAVINGS ALLOTMENT PROCESS AFFORDS EMPLOYEES IS ONLY INCIDENTAL TO ACCOMPLISHING THE LAW'S OBJECTIVES. THEREFORE, IT IS OUR POSITION THAT A USER FEE IS APPROPRIATE CONSIDERING THE BENEFITS DERIVED BY

THE FINANCIAL ORGANIZATIONS RECEIVING THESE ALLOTMENTS. BASED ON RECENT TRENDS, WE EXPECT THE ALLOTMENT PROGRAM TO INCREASE BY 13% A YEAR. CONSIDERING THE SIZE AND GROWTH OF THE PROGRAM, WE BELIEVE THE BENEFIT TO FINANCIAL ORGANIZATIONS IS SUBSTANTIAL AND FULLY JUSTIFIES PASSING ON THE GOVERNMENT'S COST OF ADMINISTRATION.

H.R. 4703 ALSO PROPOSES THE DELETION OF THE THREE ALLOTMENT LIMIT. THIS PROVISION WOULD HAVE A SUBSTANTIAL IMPACT ON EVERY FEDERAL AGENCY PAYROLL SYSTEM. THE COST OF CHANGING THE STRUCTURE OF PAY SYSTEMS TO ACCOMMODATE THE LARGEST NUMBER OF ALLOTMENTS POSSIBLE WOULD BE ENORMOUS. ELIMINATION OF A REASONABLE LIMIT WOULD ALSO EXPOSE FEDERAL PAY SYSTEMS TO THE CAPRICIOUS ACTIONS OF THOSE FEW WHO WOULD ABUSE THE ALLOTMENT PROGRAM. AN EMPLOYEE COULD REQUEST AN UNLIMITED NUMBER OF ALLOTMENTS, RESULTING IN SUBSTANTIAL INCREASES IN ADMINISTRATIVE COST. WE WOULD SUGGEST, THAT IN THIS ERA OF LIMITED RESOURCES, THE COST OF ADMINISTERING AN UNLIMITED NUMBER OF ALLOTMENTS WOULD WORK TO THE DETRIMENT OF THE FEDERAL EMPLOYEE THROUGH DEGRADATION OF OVERALL PAYROLL SERVICES. FOR THESE REASONS, THE TREASURY DEPARTMENT ALSO OPPOSES THE DELETION OF THE THREE ALLOTMENT LIMIT.

THAT CONCLUDES OUR AGENCY STATEMENT. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS YOU MIGHT HAVE.

1. In your testimony, you indicate the Treasury Department opposes elimination of the fees because of the benefits the program provides to financial organizations. Do you think the Government ought to have a consistent policy on Payroll Allotment Charges? Is it fair to charge for processing civilian employee allotments, but not military allotments or civilian employees working overseas?

A consistent Government policy with respect to payroll allotment charges would be desirable, especially from the standpoint of recipient financial organizations. Consistency could be achieved by dropping existing service charges or by charging financial organizations for the current costs of all allotments, both of which options were included for consideration by the Congress in the 1978 GAO report. Implementing either option would be a "fair" approach to this problem.

I would like to point out, however, that the statutory authorities governing military and civilian overseas allotments are separate and distinct, and both antedate the law pertaining to allotments of employees working within the continental United States. In passing this latter legislation, the Congress made clear its intentions that the Government be reimbursed for the additional costs of providing these services, with full knowledge of the existence of the other programs.

2. Don't you think if the User Fee is increased and the financial institutions pass the increased costs on to the employee, this would discourage savings at the very time the President wants to increase the rate of savings of our citizens?

Any decrease in the rate of savings on the part of civilian employees that is attributable to increased service charges would be undesirable. Under Treasury regulations, financial organizations that accept allotments must agree to absorb these charges, and not pass them on to the employee. If the service charges are passed on indirectly as reduced dividends or interest, we would expect some degree of attrition in the rate of savings. It would be impossible to speculate on the extent, as it would be affected by competitive factors within the industry, the relative attractiveness of alternative savings programs, as well as numerous other conditions.

3. Why do you suppose private employers, as a rule, provide this allotment program free of charge and the Government only charges domestic civilian employees? What is the justification for this discriminatory treatment?

Since participating financial organizations agree to accept, at the organization's expense, applicable service charges, domestic civilian employees are not charged for the savings allotment program. I am not aware of the nature or extent of practices followed in the private sector concerning payroll deductions and, therefore, cannot offer meaningful comment on this matter. I would point out, however, that the Congress establishes those benefits it determines appropriate for Federal employees.

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4. The Savings Allotment Program encourages savings at Financial Institutions. If increased User Fees discourage savings, wouldn't that cost the Government revenue? For example, all savings accounts earn interest. This interest is taxable and the employee who earns the interest on the allotment pays a tax on whatever interest exceeds the taxable exclusion on his income tax. Doesn't that help the Treasury?

We have no evidence to indicate that the existence of service charges has adversely affected savings in the past or that it will necessarily do so in the future, with the rates increased. As I previously stated, the financial organizations absorb these charges. It is our belief that the increase is not of significant magnitude as to discourage participation by employees or financial organizations, and that, therefore, any reduction in income tax revenues resulting from the revised rates would be negligible. The elimination of these charges, however, would cost the Government approximately $4.2 million in annual receipts.

5. You indicate over one billion dollars was saved in Fiscal Year 1981 through the Savings Allotment Program. How much earned interest and tax revenue did that produce for the Federal Government?

It is important to emphasize that the $1 billion dollars represent the approximate total disbursements of checks drawn in favor of financial organizations for Federal employees' savings accounts.

There is no practical way to even estimate the interest that these disbursements ultimately earned, or the income tax that was payable thereon. The total interest earned by employees during a calendar year is reported to the IRS without regard as to whether or not they participate in the savings allotment program. Even if this information were available that portion of the interest earned that was directly attributable to savings allotments could not be determined. Further, the income tax payable as a result of the program would depend on the employee's tax bracket, the extent to which the exclusion applies, as well as numerous other factors.

We would like to believe that the entire $1 billion disbursed annually to financial organizations actually accumulates interest in savings accounts throughout the year. As a practical matter, however, we know this is not the case. While no statistics on this matter are available, we are certain that many of the monies deposited are subsequently withdrawn both randomly and/or periodically by employees. More significantly, a large number of allotments are initiated for the express purpose of repaying loans, thus generating little or no interest whatsoever and, therefore, minimal tax revenues. Also, reported interest could relate to deposits other than from allotments, as well as from the compounding of interest earned in prior years.

In short, determining tax revenues generated from the savings allotment program would require a detailed examination of each employee's statements that are provided by his or her financial organization.

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6. Don't you think a case can be made that the more we encourage savings over consumption, the more tax revenue the Government ultimately receives?

The encouragement of savings is most certainly desirable. As an example, the legislative history behind the law authorizing the savings allotment program cited, as a goal, the reduction of inflationary pressures in the economy by providing Federal employees the opportunity to periodically save a portion of their pay. We support this concept and also agree that any increases in savings that are directed toward taxable programs or instruments would produce additional tax revenues from the interest income derived from these sources.

7. You expect the Allotment Program to increase by 13 percent a year. Do you think the large increase in User Fees will have any impact on the program if the financial institutions refuse to absorb these increases?

Under Treasury regulations financial organizations that refuse to absorb service charges may not participate in the Savings Allotment Program. Obviously, the effectiveness of the program would be degraded by significant attrition by financial organizations. However, we do not expect this to happen, as the increase in service charges is not large in the absolute sense. Even with the projected increases, financial organizations will absorb service charges of only .4 of 1% of the total revenues they receive from Federal employees' allotments.

8. Do you think it is possible to waive the User Fees, which would encourage savings, and have the Government make up any revenue loss by receiving increased tax revenues on the earned interest?

It is difficult to estimate what effect, if any, that waiver of the service charges would have on the savings habits of Federal employees, as this group does not directly pay these fees. There is no question however, that without this program the rate of employee savings would be significantly reduced. Increased participation in any taxable savings program would tend to produce greater tax revenues; however, with respect to the savings allotment program, it would be difficult, for reasons previously stated, to relate any tax revenue increase to the elimination of the service charges.

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DEPARTMENT OF THE TREASURY

Fiscal Service

31 CFR Part 209

Service Charges for Allotments of Pay to Savings Accounts of Federal Civilian Employees

AGENCY: Bureau of Government Financial Operations, Fiscal Service, Treasury.

ACTION: Final rule.

SUMMARY: The Department of Treasury is amending 31 CFR 209.8, the regulation governing the service charge for allotments of pay to savings accounts of civilian employees who are employed within the United States. The amendment increases the service charges, established in 1968 and unchanged from that date, to comply with the statutory requirement, that employing agencies be reimbursed by recipient financial organizations for the additional cost of sending allotments requested by employees. The amendment also substitutes a more appropriate statutory reference for the information that collected service charges are deposited into the Treasury as miscellaneous receipts unless the agency has statutory authority otherwise to dispose of the credit.

DATES: The new service charge rates apply to savings allotment deductions applicable to agency pay periods that commence on or after May 31, 1982.

FOR FURTHER INFORMATION CONTACT: Mr. John MacArthur, Government Accounting Systems Staff, Bureau of Government Financial Operations, Room 412, Treasury Annex, Department of the Treasury, Washington, DC 20226 (202/566-8374).

SUPPLEMENTARY INFORMATION:

Classification

The Department of the Treasury has determined that this regulation will not cause a significant effect on the economy and will not result in a major increase in costs or prices for financial organizations, consumers, or government agencies. The Department, therefore, does not consider this regulation to be a major rule for the purpose of Executive Order 12291 (1981).

Background

Title 31 U.S. Code, section 492, requires that agencies be reimbursed for the additional cost of sending checks for

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allotments of pay to savings accounts of Federal civilian employees, by the financial organizations to which these checks are sent. Service charges were established in 1968. They no longer adequately reimburse the Government for the cost of administering the savings allotment program. The revised service charges reflect the current additional cost to the Government for processing and mailing savings allotment checks to financial organizations.

A Notice of Proposed Rulemaking on the revised service charges was published in the Federal Register on May 22, 1981 (46 FR 27969). This Notice proposed amending 31 CFR Part 209 to increase the service charges that are currently assessed to financial organizations that accept allotments of pay from Federal civilian employees for credit to their savings accounts. Comments were invited during a period which was to end July 10, 1981. At the request of a trade association representing Federal credit unions, the comment period was extended to October 8, 1981, by a Notice to this effect published in the Federal Register on July 15, 1981. The extension was granted to allow this association additional time to present data in support of its opposition to the proposed increase. Prior to granting the extension the Department responded to a request from another trade association under the Freedom of Information Act for documents and memoranda that were supportive of the requirement to increase service charges and of the means by which the amount of the increase was determined.

The proposed service charges reflect increases in agency costs since 1968, the year the current rates were established. The portion of these original charges applicable to postage costs was increased to reflect increases in first class postage rates since 1968. To the remaining portion, representing agency costs to process payroll deductions and disbursing office costs to process checks, an index reflecting Federal salary increases since 1968 was applied.

The Department intends to review the service charges annually, taking into account changes in first class postage rates and changes in salaries as reflected by the aforementioned index. The goal of this review is to insure that service charges reflect agencies' costs in processing savings allotments. The revised service charge schedule applies to payroll deductions for Federal employees' savings accounts applicable to the first complete pay period that begins on or after May 31, 1982.

Comments on the proposed increase were received from industry trade associations, financial organizations and members of the public. One credit union trade association provided with its comments an analysis of a survey of credit unions relative to the proposed increase. Another trade association presented consolidated comments representing the views of ten trade and service organizations. Comments were also received from an association representing independent banks.

In addition, comments were received from 254 credit unions, 8 credit union leagues, and 315 individual credit union members, as well as from 3 savings and loan leagues, 6 savings and loan associations and 6 banks. In varying degree, all comments expressed opposition to the proposed increase.

Frequently mentioned was the contention that the proposed increase in service charges would disproportionally affect smaller credit unions that serve primarily Federal civilian employees. Some comments also indicated that this situation should cause the Department to reconsider its position that the proposed increase is not a major rule under Executive Order 12291, or that the proposal does not require a regulatory flexibility analysis under the Regulatory Flexibility Act (Pub. L. 96-354).

The data and accompanying analysis submitted by the trade associations were carefully studied and evaluated, as were all comments received. The Department's conclusion, however, is that the facts and arguments presented in opposition to the proposed increase in service charges do not justify modification of the rule proposed.

With respect to small financial organizations, a typical observation was that small credit unions serving primarily Federal civilian employees rely heavily on savings allotments, and that the impact of the proposed increase is heaviest on these institutions. The Department agrees that it is reasonable to assume these types of financial organizations receive savings allotment deductions in amounts that represent a higher proportion of their total assets than do financial organizations not primarily serving Federal civilian employees. It obviously follows that the amount of service charges paid by financial organizations with higher proportions of federal employee customers would be higher.

In determining and assessing service charges, the Department does not have authority to categorize financial organizations selectively as to type, asset size, or field of membership (with respect to credit unions). The Secretary of the Treasury is required by 31 U.S.C. 492 to prescribe regulations under which employing agencies "shall be reimbursed for the additional cost of sending any additional check requested by * * * [an] employee by the financial organization to which such check is sent." 31 U.S.C. 492(b)(1).

The Department emphasizes that the proposed increase in service charges was not made in a capricious or arbitrary manner and that the advisability of conducting a formal economic impact study was carefully considered. The Department concluded, however, that the statute provides insufficient flexibility in discharging its obligation to increase these charges so as to recover current agency cost. The Office of Management and Budget did not object to this assessment in its review of the proposal prior to publication in the Federal Register. The Department, therefore, feels that the cost of conducting such a study cannot be justified. Because the increase in service charges flows directly from the statutory requirement, and because there is no practicable alternative to the proposed increase other than noncompliance with 31 U.S.C. 492(b), the Treasury Department is not required to perform an economic impact analysis.

Numerous comments contended that the service charge increases would discourage continued participation in the savings allotment program by many financial organizations. Also frequently mentioned was the contention that the Federal Government as an employer should absorb the costs associated with savings allotments as a fringe benefit for Federal civilian employees. The Department does not have data to indicate the extent, if any, of attrition by financial organizations that the increased charges might precipitate. However, these comments address the desirability of the policy reflected in 31 U.S.C. 492(b), a matter which is beyond the scope of this regulation project.

The Department does not share the view of those who questioned the validity of using the 1968 service charge rates as a base, and of the index that was subsequently applied to that base. The Department feels that the use of the original 1968 service charges as a base for updating these rates is justified. The charges were originally established as a result of cost estimates submitted by representative agencies and were generally accepted by the financial community. The Department feels that the original service charges represent a fair and reasonable representation of agency costs of administering the savings allotment program in 1968, and that, therefore, it is justified in considering these rates as a base for determining appropriate increases. The Department also notes that these service charge rates have been in effect for 13 years during which time costs for goods

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and services have increased significantly.

The amounts of the new service charges were determined by postage rate increases and the application of an index measuring Federal salary increases since 1968. The Department believes that this approach is the most reasonable and cost effective means available, considering that data collected from Federal agencies indicates that labor costs comprise the overwhelming majority of the costs of processing savings allotments.

In summary, the Department's position is that the service charges must be increased in order to comply with the statutory requirement that agencies be reimbursed for their additional costs incident to the savings allotment program. In light of the above comments, the Department finds no reason to change the proposed service charge rates.

This amendment is proposed under the authority of Revised Statute 3620, as amended by Pub. L. 90-365, 82 Stat. 274 (31 U.S.C. 492).

PART 209—PAYMENT TO FINANCIAL ORGANIZATIONS FOR CREDIT TO ACCOUNTS OF EMPLOYEES AND BENEFICIARIES

For the reasons set out in the preamble, Part 209 of chapter II of Title 31 of the Code of Federal Regulations is amended as follows.

Accordingly, § 209.8 is amended by revising paragraphs (a)(1), (a)(2), and (b) as follows:

§ 209.8 Service charge.

* * * * *

(a) * * *

(1) Twelve (12) cents for each payroll deduction stated on the record which is to accompany the aggregate remittance for all administrative and payrolling costs in the agency); plus

(2) Twenty-seven (27) cents on each remittance as a single charge for the entire record accompanying the remittance, regardless of the number of payroll deductions listed (for all check preparation and mail preparation costs in the disbursing office, including postage).

(b) In accordance with R.S. Sec. 3617, as amended by Sec. 6, Pub. L. 91-375, 84 Stat. 783 (31 U.S.C. 484), the total service charge collected pursuant to this section shall be covered into the Treasury as miscellaneous receipts unless the agency has statutory authority otherwise to dispose of the credit.

W. E. Douglas,
Commissioner.

December 30, 1981.

[FR Doc 82-6100 Filed 3-5-82; 8:45 am]
BILLING CODE 4810-35-M

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U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATION AND INSURANCE
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
NINETY-SEVENTH CONGRESS

WASHINGTON, D.C. 20515

March 8, 1982

Honorable Donald J. Devine
Director
Office of Personnel Management
1900 E Street, N. W.
Washington, D. C. 20415

Dear Mr. Devine:

As you know, the Subcommittee on Compensation and Employee Benefits of the Committee on Post Office and Civil Service held hearings on the provisions of H.R. 4703 on February 4, 1982. On that occasion, Mr. William E. Douglas, Commissioner of Government Financial Operations, appeared on behalf of the Treasury Department. Copies of Mr. Douglas' testimony as well as testimony from other witnesses are enclosed for your information.

Since the Office of Personnel Management was created as an independent establishment, one of its primary roles is to ensure that the Federal Government provides an array of personnel services which directly affect the well-being of the Federal employee and indirectly enhances employee effectiveness. Therefore, the Subcommittee feels it is extremely important to have OPM's views on the provisions of H.R. 4703.

Inasmuch as H.R. 4703 was jointly referred to the House Banking, Finance and Urban Affairs Committee, assuming action by the Post Office and Civil Service Committee on March 10, the Subcommittee will hold hearings on Thursday, March 11 at 9:30 a.m. in Room 2128 of the Rayburn House Office Building. Accordingly, the Subcommittee would appreciate receiving testimony from the Office of Personnel Management on the provisions of H.R. 4703, a copy of which is enclosed. Please provide the name of the individual who will testify no later than March 9, 1982.

It will be appreciated if OPM could provide 100 copies of its statement to the Subcommittee office, Room B303 Rayburn, by March 10. Please limit your testimony to 10 minutes in order to permit adequate time for Subcommittee questioning. The entire statement will, of course, be printed in the record and made available to members prior to the hearing.

Sincerely,

Fernand J. St Germain
Chairman

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United States
Office of Personnel Management
Washington, D.C. 20415

In Reply Refer To: Your Reference:

Honorable Fernand J. St. Germain
Subcommittee on Financial Institutions
Supervision, Regulation and Insurance
Committee on Banking, Finance and Urban
Affairs
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. St. Germain:

Thank you for your letter of March 8, 1982 inviting me to present testimony before your Subcommittee on the bill H.R. 4703.

Inasmuch as this bill would amend Title 31 United States Code, which comes within the purview of the Department of the Treasury, we defer comment on H.R. 4703 to Treasury. The issue of fees charged to savings institutions is not within the scope of the Office of Personnel Management.

I appreciate hearing from you in this regard and being afforded the opportunity to comment.

Sincerely,

Donald J. Devine
Director

The subcommittee is adjourned.

[Whereupon, at 10:05 a.m., the subcommittee was adjourned.]

[The following statements have been received by the subcommittee for inclusion in the record:]

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STATEMENT OF
VERNON DWYER
PRESIDENT, DEFENSE CREDIT UNION COUNCIL

Good day. I am Vernon Dwyer, President of the Defense Credit Union Council (DCUC) and Manager of the Pentagon Federal Credit Union. The Defense Council is the national trade association representing 384 state and federally chartered credit unions whose membership consists wholly or in part of personnel of the Department of Defense, both military and civilian. Defense credit unions are located in 49 of the 50 United States, plus the District of Columbia, Guam, Puerto Rico, and Panama. Twelve of the federally chartered Defense credit unions operate branch offices overseas at the invitation of the Department of Defense and with the approval of the National Credit Union Administration which regulates all federal credit unions. These branch offices, serving only U.S. military and civilian DoD personnel are located in various places throughout the world including, among others, Great Britain, the Federal Republic of West Germany, Spain, Italy, Greece, Korea, Japan, the Phillipines, Cuba, Guam, the Azores, Iceland, Bermuda, and Diego Garcia.

Defense credit unions are divided by military Services approximately as follows: Army 25%; Navy 19%; Air Force 30%; Marine Corps 2%; Coast Guard 3%. The balance is accounted for in community, civilian only, National Guard and other types of charters. The 384 Defense credit unions operating as of December 31, 1980 (figures for 1981 will not be available until July 1982) had 6.4 million members. This represented 14% of the total credit union membership in the over 22,000 credit unions in the United States. These Defense credit unions had 7,941 full-time employees; 862 part-time employees; and 2,317 volunteers in leadership roles (officers, directors, and other volunteer workers). These Defense credit unions had assets of slightly over $10.1 billion — 14.1% of all U.S. credit union assets.

I know of no better way to encourage savings, particularly among the lower enlisted grades and civilian employees than through payroll deduction. Pentagon Federal Credit Union has 260,000 members, of which 35,000 members are federal civilian employees. The cost to Pentagon Federal Credit Union of receiving these payments is approximately $2,165 a month. Obviously, this cost affects what Pentagon and other members of the Defense Council and coalition may pay their members on savings. More important, however, is the fact that the policy of charging a fee for allotments of federal civilian employees is impossible to explain to our members who work together— one a member of the military and the other a civilian employee.

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SUPPORT FOR LEGISLATION

The Defense Council has worked closely with the Coalition to have Congress reconsider its policy of charging fees for federal civilian allotments. We strongly support H.R. 4703.

The bill accomplishes two things. First, the present statutory limit of two deductions per check would be eliminated. Second, the requirement that a charge be made for each deduction would end.

These changes would bring the payroll practices of the federal government toward its civilian employees in line with the private sector and also in line with its practices toward other federal employees. Frankly, we can find no policy basis upon which to support the present practice of charging federal civilian employees for allotments. The charges do defray a major portion of the cost of the allotment program. This alone is not enough. We must seriously question a policy that so clearly frustrates the national goals of reducing inflation through increased savings and also directly or indirectly places a cost on the employee for having a portion of his or her salary sent to a credit union or financial institution. Further, we have difficulty finding support for a policy that places no charge on what are called direct deposits (generally net pay and not for savings) but penalizes funds which are always deposited in a federal employee's savings account.

BACKGROUND

Defense credit unions have provided the full range of financial services to members of the military for years. Organized as democratically controlled financial cooperatives to serve members of a branch of the military and those civilians employed by the Department of Defense, credit unions have specialized in meeting the savings and borrowing needs of the armed services members.

In 1899, Congress authorized military personnel to have deductions withheld from their pay and sent directly to another person or organization. Each time Congress has addressed this basic program, it has expanded the allotment authority of members of the military. Congress has never levied a charge for this service.

In 1978 the General Accounting Office considered recommending that Congress establish a charge for allotments by members of the military. The Department of Defense argued that the clear benefit to both the Department and military personnel weighed against charging for allotments. The Defense Department noted that "the exigencies of military service" (unpredictable rapid relocation, assignment to war zones,

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etc.) that supported the original allotment authority for military personnel continue to exist. The GAO Report did recommend that Congress reconsider whether charges for any allotment were warranted. The GAO Report did not specifically recommend any particular course of action.

The Defense Council was concerned and became deeply involved in the General Accounting Office study of allotments. Allotments provide the lifeblood of the savings programs of most military personnel and many civilian employees of the federal government. The Defense Council clearly agreed with the recommendation by GAO that Congress review the allotment programs it had authorized and consider appropriate changes.

In 1980 the Defense Council again participated with Coalition efforts to restore budget cuts to the armed forces appropriation bill that would have resulted in the imposition of service charges for military allotments. These efforts were successful as the House members involved quickly became convinced that the authority for allotments by military personnel was an essential element in promoting morale and maintaining the efficiency and mobility of the armed services. Although the issue of charges for military allotments is not resolved forever, the recent Congressional review of this policy may be viewed as implementation of a portion of the General Accounting Office recommendation that the allotment policy be reconsidered.

The Defense Council believes the 1980 review of the military allotment policy makes extremely timely the review of the discriminatory government policy on federal civilian allotments. According to the GAO study, "the benefits (of allotments) are basically the same." There is an identifiable value to the "Federal government as an employer, the employee, and the financial organizations." H.R. 4703, in our opinion, properly recognizes the inappropriateness of asking a third party to bear the cost of a program that substantially benefits the national economy, the Federal government as an employer and the federal civilian employee.

DEFENSE CREDIT UNION PARTICIPATION IN ALLOTMENTS

In 1981, the Credit Union National Association (CUNA) surveyed 2,079 credit unions to evaluate credit union participation in allotment programs, the cost of participation and the impact of allotment fee increases being proposed by the Treasury Department. Since credit unions are chartered on the basis of a common bond of occupation, association or residence in a well-defined geographic area, it is relatively easy to evaluate the impact of allotment fees on specific types of credit unions. The

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National Credit Union Administration (NCUA), which regulates federally chartered or insured credit unions, groups credit unions by common bond and gives each one a classification number. The CUNA survey used this numbering system as the basic structure of its analysis of the information provided by the 66% of the credit unions surveyed that provided usable responses.

The survey showed that credit unions from all size and common bond groups receive federal civilian allotment payments. However, 100% of the responding Defense credit unions reported receiving allotments. The average number of Defense credit union members receiving allotments is more than twice the overall average established by the survey. Not surprisingly, the charges for federal civilian allotments received by Defense credit unions represented a significant percentage of adjusted operating expenses (expenses less salaries) at one percent (1%).

However, for other federal government credit unions (non-defense), the fees for allotments represent a much greater percentage of adjusted operating expenses, e.g., postal employee credit unions at 2.2%.

It is clear from the survey that Defense credit unions are meeting the savings needs of their military and civilian members through payroll deductions. The present charges for civilian allotments represent a significant portion of adjusted operating expenses. Further, the proposed increases in these fees will increase the impact on expenses and ultimately, earnings—the ability to pay dividends to credit union member-owners.

INCONSISTENT FEDERAL ALLOTMENT PRACTICES

H.R. 4703 addresses directly the inconsistent government policy that results in a fee being charged for allotments by federal civilian employees. Nowhere is the inconsistent policy more obvious than in the Defense credit union where two credit union members—one on active duty, the other a civilian—may work side-by-side, doing identical jobs with similar allotments, one of which their credit union must pay to receive.

Defense credit union participation in military and civilian allotment programs is extensive. We must question, however, whether these credit unions will continue to actively solicit and provide civilian payroll savings if the cost to the credit union for providing what is properly considered an employee fringe benefit continues to escalate.

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ALLOTMENT PRACTICES IN THE PRIVATE SECTOR

All types of credit unions responding to the CUNA survey reported receiving some federal civilian allotments. Federal civilian employees may be eligible to join private sector credit unions in certain circumstances and elect to have allotments sent to that credit union. The adjusted operating expenses of non-federal government employee credit unions attributable to allotment fees did not exceed one-tenth of one percent (.1%) in any category.

The major finding of the survey, however, was that the private sector, as a rule, did not charge for allotments. For example, of the credit unions serving a membership defined by NCUA as based on "Trade or Insurance," none reported being charged for employee allotments although 64% of the credit unions surveyed were receiving allotments from the sponsoring company. Again, of the credit unions surveyed serving state and local government employees, 91% reported receiving allotments but only 10% were charged for these allotments. In this case, the figure is quite impressive since, presumably, these employees (of state and local governments) are aware of the federal practice of charging for allotments and have rejected the option. In summary, of the 593 non-federal employee credit unions responding to the survey, 77% reported receiving non-federal payroll deductions, but only 8% reported being charged for allotments.

It is apparent that industry endorses payroll deductions. It does not find it to be a burden. Further, the survey strongly suggests that industry finds its cost of providing payroll deductions far outweighed by the benefits to the employer and employee. Also, according to the data, use of allotments for savings by employees in the private sector (where provided by the employer) runs ahead of that of the government employees. This is a strong indication that the national policy of encouraging savings is being frustrated by the fees being imposed for allotments of federal civilian employees.

BENEFITS OF ALLOTMENTS

We believe that Congress has been generally pleased with the acceptance of payroll allotments by federal employees. Nearly all credit unions serving federal employees receive allotments. Approximately 30% of the credit unions reported that at least half the members make allotments.

As an employer, allotments create a more financially stable work force, with better morale, better work habits, better safety records and improved efficiency. To believe that the immunity from attachment and garnishment provided federal workers

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insulates them from financial stress is a false belief. Strong credit union savings programs and debt counselling through the credit union are far more effective ways to combat the financial stress felt by federal employees.

The employee that is voluntarily saving through painless payroll deductions has taken the first important step toward being able to meet personal financial emergencies through financial planning. In addition, the employee will begin in the near future to take advantage of payroll deduction to fund IRAs authorized for all employees in last year's tax bill. Pentagon Federal has already opened 5,000 Individual Retirement Accounts for members in the four weeks that most of our members have been able to establish these plans. Payroll allotments provide the primary means for collecting the funds which hold so much promise for insuring the financial well-being of Americans in their retirement years.

Defense credit unions take great pride in their record of helping military and civilian employees of the Department of Defense meet the financial strains each faces. We are aware of our cooperative nature and responsive to the particular demands created by our mutual ownership. Credit counseling and other assistance are important tools in meeting this obligation. However, occassionally, a borrower takes the easy way out and declares bankruptcy. A strong personal savings program, funded through allotments, minimizes the likelihood of personal bankruptcy—an all too frequent occurrence and one that concerns us all.

Each credit union that participates in an allotment program benefits from the stream of funds deposited in the member's account. This money can be invested safely in loans to members or other authorized investments that assist the nation's economic growth.

Lest we forget, the national economy is enhanced by the savings provided through allotments. As is well known to the members of this Subcommittee, real economic growth and increased productivity depends on capital formation. Allotments do materially contribute to the working public's ability and willingness to save.

IMPACT OF CONTINUALLY INCREASING FEES FOR ALLOTMENTS

The Treasury Department is currently preparing to more than double the fees charged for allotments. While it is true that the statute requires the government to recover the cost of federal civilian allotments, it has never been clear on what basis the Treasury was to compute costs. Presumably, Treasury could assign a value to the

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benefits that it obtains from allotments to offset a greater or lesser degree the direct costs that can be isolated as a result of the allotments. Treasury has not chosen to do so.

In its proposal to increase the fees for federal civilian allotments, Treasury suggested that it was merely taking the figure established initially (1968) and increasing it by some fixed multiple. No effort was made by Treasury in the comment period to evaluate the validity of the initial index; or to take into account the technological advances in payroll processing that have been made; or to evaluate by a uniform method the actual cost of providing payroll deductions. We criticize the method used to arrive at the proposed new fee as a guess.

The simple fact is that a 1978 Agency-wide survey by Treasury of allotment costs was a disaster. Variances in costs were simply unexplainable, and the project was jettisoned by the Department. In fact, we must conclude that the Treasury determined the additional revenue that will be collected for allotments under the new proposed fee schedule is so small that a full cost accounting is not justified.

That brings us to the basic point. If the fees ratchet up and up, credit unions which already find the fees a significant portion of adjusted operating expenses must consider whether continued participation is worthwhile.

In my own credit union we receive thousands of allotments from military and civilian employees each pay period. The civilian allotments cost my credit union $2,165 each month. Under the new fee schedule, that cost will increase to $4,330. That represents a significant portion of my adjusted operating expenses.

While Pentagon is a large credit union by comparison to most, the impact on smaller credit unions will be quicker and probably more severe. It is clear that H.R. 4703 must be passed before irreparable damage is done to the allotment savings programs at Pentagon and other Defense Credit Union Council members.

CONCLUSION

Thank you, Mr. Chairman, for the opportunity to testify in support of H.R. 4703. We urge the members of the Committee to support this legislation and report it favorably. This is a bill that benefits the federal employee, the federal government as an employer and the nation's economy as well.

I would be pleased to respond to your questions.

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UNITED STATES LEAGUE of SAVINGS ASSOCIATIONS
111 EAST WACKER DR. / CHICAGO, ILLINOIS 60601 / TEL. (312) 644-3100

March 30, 1982

The Honorable Fernand J. St. Germain
Chairman, Banking, Finance & Urban Affairs
2108 Rayburn House Office Building
Washington, D. C. 20515

Dear Mr. St. Germain:

The United States League of Savings Associations* wishes to comment in support of the proposed legislative amendment (H. R. 4703) which would direct that payroll deductions for federal employees be made available at no cost to the employee or financial organization involved.

The savings allotment plan is a laudable service for civilian employees, and it can provide a dependable source of regular savings deposits to savings associations and other financial institutions. However, we believe that the current responsibility of the Department of the Treasury under Title 31, U. S. Code, Section 492, to

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* The U. S. League of Savings Associations has a membership of 4,100 savings and loan associations representing over 99% of the assets of the $650 billion savings and loan business. League membership includes all types of associations -- Federal and state-chartered, stock and mutual. The principal officers are: Roy Green, Chairman, Jacksonville, FL; Leonard Shane, Vice Chairman, Huntington Beach, CA; Stuart Davis, Legislative Chairman, Beverly Hills, CA; William B. O'Connell, President, Chicago, IL; Arthur Edgeworth, Director, Washington Operations; Glen Troop, Legislative Director; and Phil Gasteyer, Associate Director, Washington Operations. League headquarters are at 111 East Wacker Drive, Chicago, IL 60601. The Washington Office is located at 1709 New York Avenue N. W., Washington, D. C. 20006. Telephone: (202) 637-8900.

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claim reimbursement from the receiving financial institutions for the additional cost of sending checks for civilian pay allotments to the employee's financial institution is unnecessary. These fees are an administrative nuisance for all financial institutions and the revenues -- even at the higher levels proposed by the Department of the Treasury of 12¢ and 27¢--are hardly significant enough to warrant the administrative and accounting burdens that the receiving financial institutions must bear.

There is, however, a more cost-effective method of delivering this valuable government employee benefit. It is electronic direct deposit. The Department of the Treasury has very effectively championed the use of direct deposit for many kinds of government payments. We feel that civilian allotment payments to savings accounts is another ideal application for the electronic direct deposit system.

It is our understanding that it costs the Department of the Treasury about 5¢ to produce a paper check but only about 2¢ to produce an electronic payment. Given this potential cost savings to the government, we feel that the best way to keep the cost of providing this government employee benefit under control is to move expeditiously to convert the civilian allotment system to electronic direct deposit and to eliminate the fees for allotments to savings accounts.

We feel that H. R. 4703 is a very positive step forward and we urge its adoption.

Very truly yours,

Arthur B. Edgeworth
Director,
Washington Office

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National Savings and Loan League

1101 15th Street NW
Washington, DC 20005
202 331-0270 Cable: NATLISA

Jim Cousins
Senior Vice President
For Governmental Affairs

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1982
Banking, Finance & Urban Affairs Committee

April 19, 1982

Honorable Fernand St Germain
Chairman
House Committee on Banking,
Finance and Urban Affairs
U. S. House of Representatives
Washington, DC 20515

Dear Chairman St Germain:

On behalf of the officers and members of the National Savings and Loan League, I want to extend to you our appreciation for your prompt action on H.R. 4703 dealing with payroll allotments for federal employees. The National League supports this legislation out of a conviction that any effort to encourage the overall level of savings in the country will help restore a stable and growing economy which, in turn, will benefit the thrift industry. Likewise, any impediment to savings should be eliminated if at all possible. The passage of H.R. 4703 would remove one such impediment, and we, therefore, urge the bill's adoption.

By repealing the charge for payroll allotments for federal civilian employees, the Congress will send a very positive signal to both government employees and the financial communities that it seeks to encourage savings in the most efficient way possible. Employees will be encouraged to use the direct deposit means to build their personal savings. Depository institutions will also be encouraged to compete more aggressively for federal employee deposits.

Thank you, Mr. Chairman, for your consideration of our views on H.R. 4703.

Sincerely,

Jim Cousins

Jim Cousins

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FERNAND J. ST GERMAIN, R.I., CHAIRMAN
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U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-SEVENTH CONGRESS

2129 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, D.C. 20515

May 19, 1982

Honorable Donald T. Regan
Secretary of the Treasury
15th & Pennsylvania Ave., N.W.
Washington, D. C. 20220

Dear Mr. Secretary:

As you know, in March of this year, the House Banking, Finance and Urban Affairs Committee favorably reported H.R. 4703, a bill eliminating the fee charged by Treasury for federal civilian employee payroll allotments. The full House passed this measure on April 27 and the bill was then referred to the Senate Governmental Affairs Committee on April 29.

It is my understanding that there has been no action to date on H.R. 4703 in the Senate. With that in mind, I would again strongly urge the Treasury Department to postpone implementation of the regulation that would commence on or after May 31, doubling the existing fee, until this bill has been acted upon by the full Senate and final action completed by Congress.

In a letter to Representative Mary Rose Oakar, Mr. W. E. Douglas, Commissioner of the Bureau of Government Financial Operations, cites a 1978 GAO report that recommends that the existing charges for civilian allotments be dropped, or financial institutions should be charged for the cost of allotments to all federal employees. Mr. Douglas states, "It would appear that adoption by Congress of either of these options would eliminate any differences with respect to service charges for employee allotments."

I concur with Mr. Douglas' stated need for Congressional action and would hope that the Treasury Department would defer implementation of the scheduled allotment fee increase in order to allow such Congressional action to take place.

Sincerely,

Fernand J. St Germain
Chairman

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THE SECRETARY OF THE TREASURY
WASHINGTON 20220

June 7, 1982

Dear Mr. Chairman:

Thank you for your letter concerning the fees charged to financial organizations for Federal employee savings allotments.

The Treasury Department finds substantial merit in your suggestion that the scheduled increase in these fees be delayed. Accordingly, we have postponed for an indefinite period regulations in this area.

The Department is currently conducting a study of the overall Federal salary payment mechanism, including savings allotments, with the goal of proposing more efficient payment procedures. Your request for a delay in implementing the scheduled service charge increase is therefore appropriate, pending the results of this study and the intent of Congress on this issue.

We appreciate your interest in the savings allotment program.

Sincerely,

R. T. McNamar
Acting Secretary

The Honorable
Fernand J. St Germain
Chairman, Committee on
Banking, Finance and
Urban Affairs
House of Representatives
Washington, D. C. 20515

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